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High-Power Computers, Top-Flight Performance

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BACK From The BRINK

Sometimes, as architect John Riggs knows, it takes a brush with death to bring a firm to life.

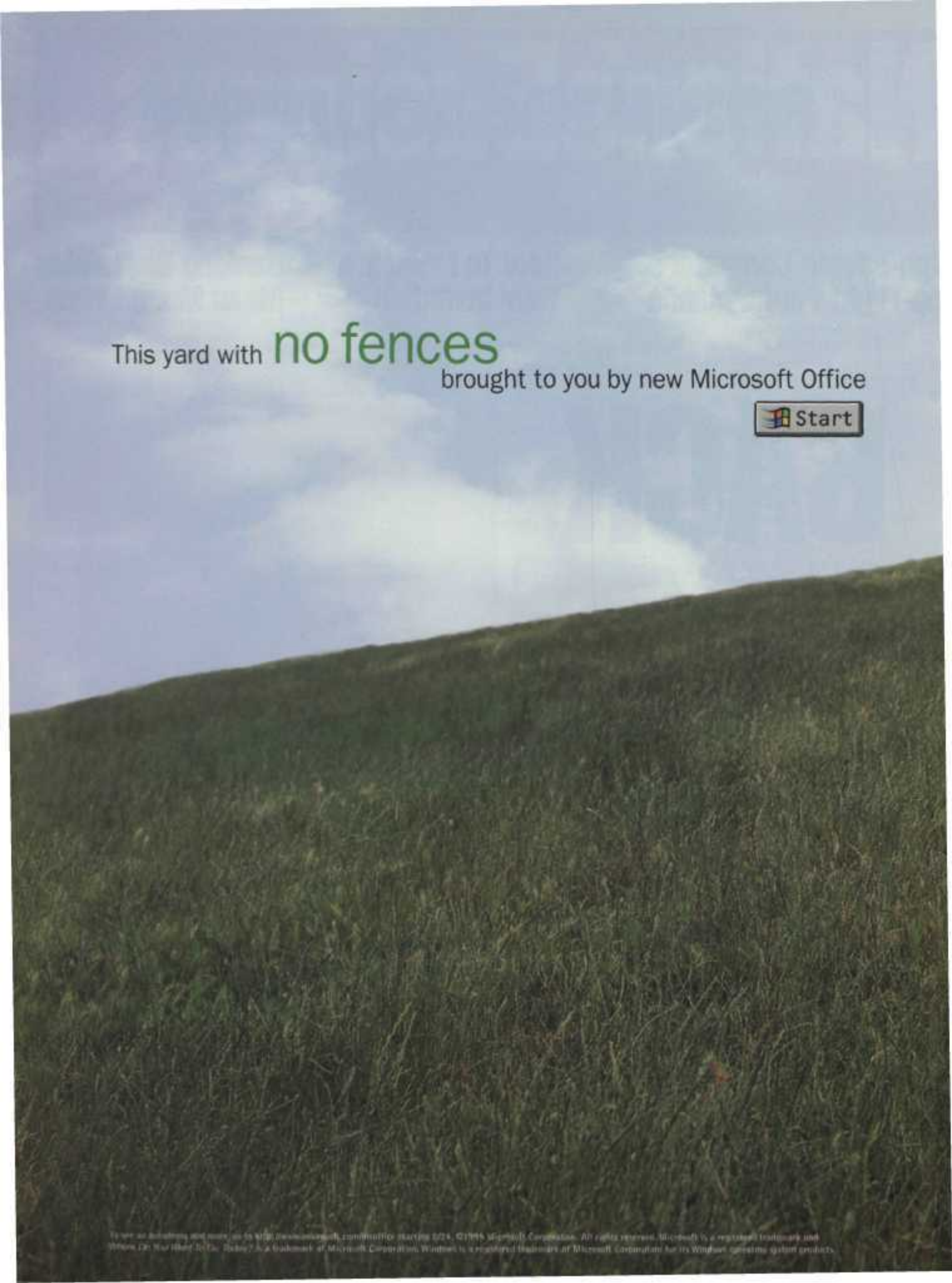


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PHOTO: CHARLES W. KREYSE—BLACK STAR

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ILLUSTRATION: GEORGIA LEIGH MCDONALD

The key *to making company wellness programs work is to get all employees involved. Managing, Page 32.*

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PHOTO: GARNOLD ADLER

All for one: *Arbor Group's Amy Friedman, Linda Kline, and Jaye Smith. Managing Your Small Business, Page 10.*

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Editor's Note

When The Pain Pays Off



PHOTO: T. MICHAEL KEZA

Every year, entrepreneurs bring their companies back from the brink of failure, but what have they learned? That's what Senior Editor Michael Barrier, at the right, set out to discover in reporting this month's cover story, "Back From The Brink." Many business owners he spoke with found their experiences both enlightening and liberating. Beginning on Page 18, he explains why.

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PHOTO: ROBERT HOLMGREN

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In our October issue we'll tell you how you can cut your business travel costs, set executive pay at a level that won't provoke an Internal Revenue Service audit, and keep your managers and employees on top of things with a new small-business training program called the Small Business Institute. These are just a few ways we'll help you help your business and yourself next month. For now, we hope you'll find many similarly useful articles throughout this issue.

Until next month,

Mary Y. McElveen
Editor

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Mary Y. McElveen

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Editor

Nation's Business

Letters

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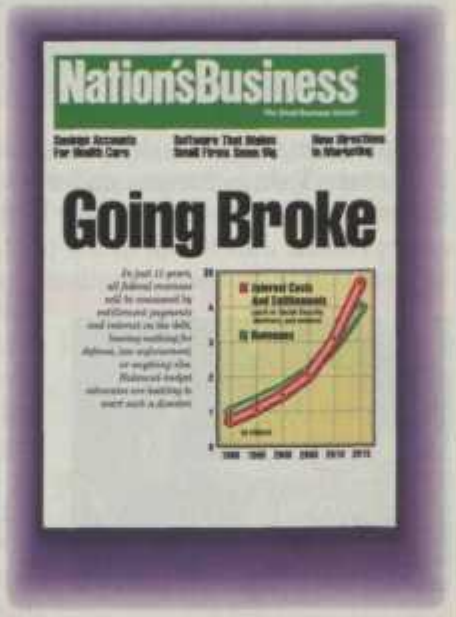
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Lucy Oliver, circulation manager
Liana Glasco, consumer marketing manager

MARKETING COMMUNICATIONS
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Nancy Swanson, research manager
Diane Lewis, promotion coordinator

Out-Of-Control Deficits Put Economy At Risk

I just read and reread your July cover story, "Going Broke." To say the least, this nation is facing economic demise in the next 15 years unless something is done about revenues vs. expenses.

The senior senator from Wyoming, Alan K. Simpson, is presently involved in hearings that directly relate to curbing deficit spending. On the other hand, representatives of outside interests that



receive funding continue to lobby for the status quo.

I intend to order 10 extra copies of this article and place them in the hands of the 10 most highly regarded leaders in my community. I hope readers across the country will do the same. People need to understand that economic chaos in America is right around the corner, caused by a government out of control.

Richard W. Bratton
Gillette, Wyo.

False Entitlements

Regarding your July cover story, "Going Broke": Every time I turn on the TV or read a book or the local paper, the word "entitlements" jumps out at me. The cover and several letters to the editor in the July issue also made reference to entitlements.

It's as if the bureaucracy is telling me that all these people are entitled to benefits for some reason, but the reason is never identified. It as if I'm entitled to support people who have no intention of working and they are entitled to receive the money because our government says they are deprived. Garbage.

Being a small-business man, I know I am entitled to an opportunity to make a success of myself by the rights our forefathers gave us. I am not entitled to success, only to opportunity.

R. Miller
Dayton, Ohio

Cut Everything

Regarding your July cover story, "Going Broke": My suggestion is simple. Cut everything. Cut every item in the budget (except interest) by 10 percent, and agree to no increase in spending until receipts equal expenditures. If government department heads can't make cuts, replace them with someone who can.

Sure, the whole country will hurt, but maybe those who hurt the most will be those who have received the most inflated benefit. At least we'll all hurt together.

E.B. Fitzgerald
President and General Manager
Peoples Mutual Telephone Company, Inc.
Gretna, Va.

Even The Smallest Firms Need An Employee Handbook

In "Do's And Don'ts For Employee Handbooks" [Managing Your Small Business, April], human-resources expert William Anthony said an employee handbook probably isn't necessary for a very small firm. He couldn't be further from the truth. My company has up to three part-time employees—a microbusiness by any measure—and I have a policy handbook, mainly to cover myself in unemployment hearings. Now my employees and I know what is expected of them. My recommendation to a company that doesn't have an employee handbook is to write one.

Dan Robinson, Owner
Deli West
Pittsfield, Mass.

It Pays To Heed Employee Complaints

Regarding your July Dateline: Washington item on OSHA inspections, "OSHA Less Likely To Inspect Typical Small Businesses": I run a small employment agency in the Detroit area. We take

steps to ensure that we are placing our workers in a safe environment. But there are a couple of cases where our clients disguised their injury records.

One client company was operating a gasoline-powered forklift inside a 3,000-square-foot plant with inadequate ventilation. My employees were leaving work midday with severe headaches. Our client company's solution was to fire those workers. I contacted the Michigan Bureau of Safety and Regulation to report this company and remedy the problem. The state agency said that the company didn't have a record of numerous injuries and that the agency didn't have time to pursue the matter. So nothing happened. I dropped the account, and the company still operates a gasoline-powered forklift in a poorly ventilated area.

I feel complaints like these should be treated seriously. Employees will be the first to tell you if they are in a hazardous environment. We should listen to them.

Lori Ramsey, Vice President
Sentech Engineering Services
Bloomfield Hills, Mich.

Ergonomics' Benefits

While I agree the standards the Occupational Safety and Health Administration proposed for repetitive-motion injuries could definitely be improved [Dateline: Washington, July], combating cumulative trauma usually has financial benefits. OSHA's estimate of the costs of implementing the proposed standards is $4.4 billion, which is expensive. But the savings in reduced medical, legal, and insurance costs are estimated at an even higher $9.2 billion.

Marc Resnick
Resnick Ergonomics
Miami

The Regulatory Agenda

As the daughter of a private business owner and as a company employee, I agree entirely with Merrick Carey's letter in May that criticized the Occupational Safety and Health Administration's micromanagement of the private sector. And OSHA is only the beginning. I would like to know what's next on the government's agenda. Don't be mistaken. I'm not against trying to ensure safety at job sites, but must an owner of a company who trained his or her employees be responsible if an employee is knowingly careless?

Owning a business almost isn't an advantage anymore.

Tina R. Stauffer
Dolphin Fire Protection, Inc.
Sacramento, Calif.

A Comic-Book Collection—Lost Forever

I read your July Making It article on the Los Angeles comic-book broker, "Up, Up—And Away!" When I finished, I had a hollow feeling in the pit of my stomach. I owned *Action Comics* No. 1 and each subsequent issue for two or three years. I also had the original issue of *Detective Comics*, which spawned Batman. And along with that, I had the original *Batman Comics*, plus subsequent issues as well.

Oh, what might have been had my parents not thrown away my comic-book collection! Most of these comic books were read once and carefully put away, so I could conceivably have had the first, best copies in existence.

Robert W. Green
River Vale, N.J.



The Burgeoning Welfare State

Regarding your June cover story, "Welfare Reform: Making It Work": The United States continues to evolve into a total social welfare state for the poor, with generation after generation collecting.

As a middle-income individual—part of a vanishing segment in this society—the system of welfare and food stamps disturbs me very much.

I'm very well aware of the fact that, yes, some people need this assistance. What I don't like is that a certain percentage of people blatantly abuse the system. They know the system better than the administrators do.

Ronald D. Gaillardetz, President
Gaillardetz Employment Agency
Keene, N.H.

'Lame Duck' Sees Writing On The Wall

Your April editorial, "Job Destruction Is Not A Sound Political Strategy," dealt with President Clinton's executive order denying federal contracts to companies that hire permanent replacements for strikers. History suggests that when an incumbent sees the writing on the wall and realizes he is indeed a lame duck, currying favor by executive order is the only option he has left. So it is with Bill & Co.

Cliff Harrison
Winter Haven, Fla.

Accepting Credit Cards —And Debit Cards, Too

Your July article on gaining credit-card merchant status, "Going Plastic," was excellent. But you missed an important benefit of acquiring the necessary equipment. The unit can also be used to accept debit cards to replace the acceptance of checks or the need for cash transactions. It may very well be possible to make the necessary arrangements with the same bank that the merchant is using for credit-card processing.

John P. Nigro, Owner
Uniglobe Vineyard Travel
Escondido, Calif.

OS/2 Worthy Of Coverage

I have noticed that your articles on hardware and software have always left out OS/2. Now that the Warp operating system is in the marketplace, I think it is time for this omission to end. Warp and the programs that are designed for it are very powerful for small and large businesses. The multitasking aspects are of great advantage to any overwhelmed business person. I think ignoring any of the players in the computer industry is a disservice to your readers and ultimately to your magazine.

Frank Giglia Jr.
Allied Scrap Processors, Inc.
Lakeland, Fla.

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Entrepreneur's Notebook

By Nancy Ganz

Protecting Your Good Name

Recently, my father-in-law spotted an ad in a Los Angeles newspaper touting a hip-shaping Hipslip—complete with registered trademark notation. The garment wasn't a Hipslip, however. Hipslip is a registered trademark of mine. We are now pursuing legal action.

Far too often, retailers and the media use trademarked names as generic terms. The department store ad highlights an offshoot of success: the need to protect your good name.

In 1988, I introduced the Hipslip—made from nylon and DuPont's Lycra—to give women extra support under the body-hugging garments I designed. I knew that new ideas and products are quickly knocked off, or imitated, so I registered Hipslip with the U.S. Patent and Trademark Office almost as soon as I coined the name. The familiar registered trademark symbol, ®, shows that federal trademark registration has been secured for a business name (hence, Hipslip®); the ™ symbol is used until a certificate of registration has been issued.

While it's flattering to see your product become an industry standard, I've learned it's also dangerous. A company's identity, reputation, and market share can easily be lost if a product's name is allowed to become a generic description or a common term for all similar products.

Today, my Manhattan-based company, Bodyslimmers™ By Nancy Ganz, ships more than 90,000 Hipslips a month and has annual sales of nearly $10 million. It offers a full line of body-shaping garments, including my newest curve-creating invention, the Butt Booster™.

Early on, I was too busy designing and handling the overwhelming response to the Hipslip to pay close attention to every trademark infringement. What changed me into a fierce protector of my rights was the discovery that a past customer, a well-known catalog retailer, was selling a less-expensive control slip made by one of my competitors and calling it a Hipslip. Sales were being made based on my product and name from which I received no benefit. Moreover, Bodyslimmers' reputation and future sales were on the line as customers purchased lesser goods and believed them to be the real Hipslips.

Turning a negative into a positive, I persuaded the catalog company to meet with me, and we came to an agreement. Today it is one of my best customers.

Not all infringements are intentional. Often, in looking for ways to describe an item, the media use the most descriptive, popular term without realizing it is a trademarked name.

Stopping infringement starts with knowing how your trademark is being used. Hire a press-clipping service to track references to your company or products, including those in ads. A nationwide review typically costs about $200 a month, plus about $1.50 per clipping.

Making your company's name unique also helps protect your rights. By itself, Bodyslimmers is generic enough to be modified slightly and used without infringement. But by adding my name—Bodyslimmers™ by Nancy Ganz—I've given the name both legal protection and added identity.

Protecting your rights also means notifying the bad guys. At the very least, have your lawyer write a letter informing the offending party of your trademark and position in the industry; as my experience with the catalog company proves, this can boost business. At its extremes, legal action involves pursuing offenders for some of the proceeds they have made using your name.

To avoid problems upfront, get your name out. We have taken out full-page ads in trade publications.

Most entrepreneurs—and I was in this group—spend their time developing a product, not protecting its name. But shielding your trademarks isn't hard. If you let things slide long enough, you could learn the hard way how much it costs to have your name taken in vain. NB



PHOTO: ERICA LANDER—BLACK STAR

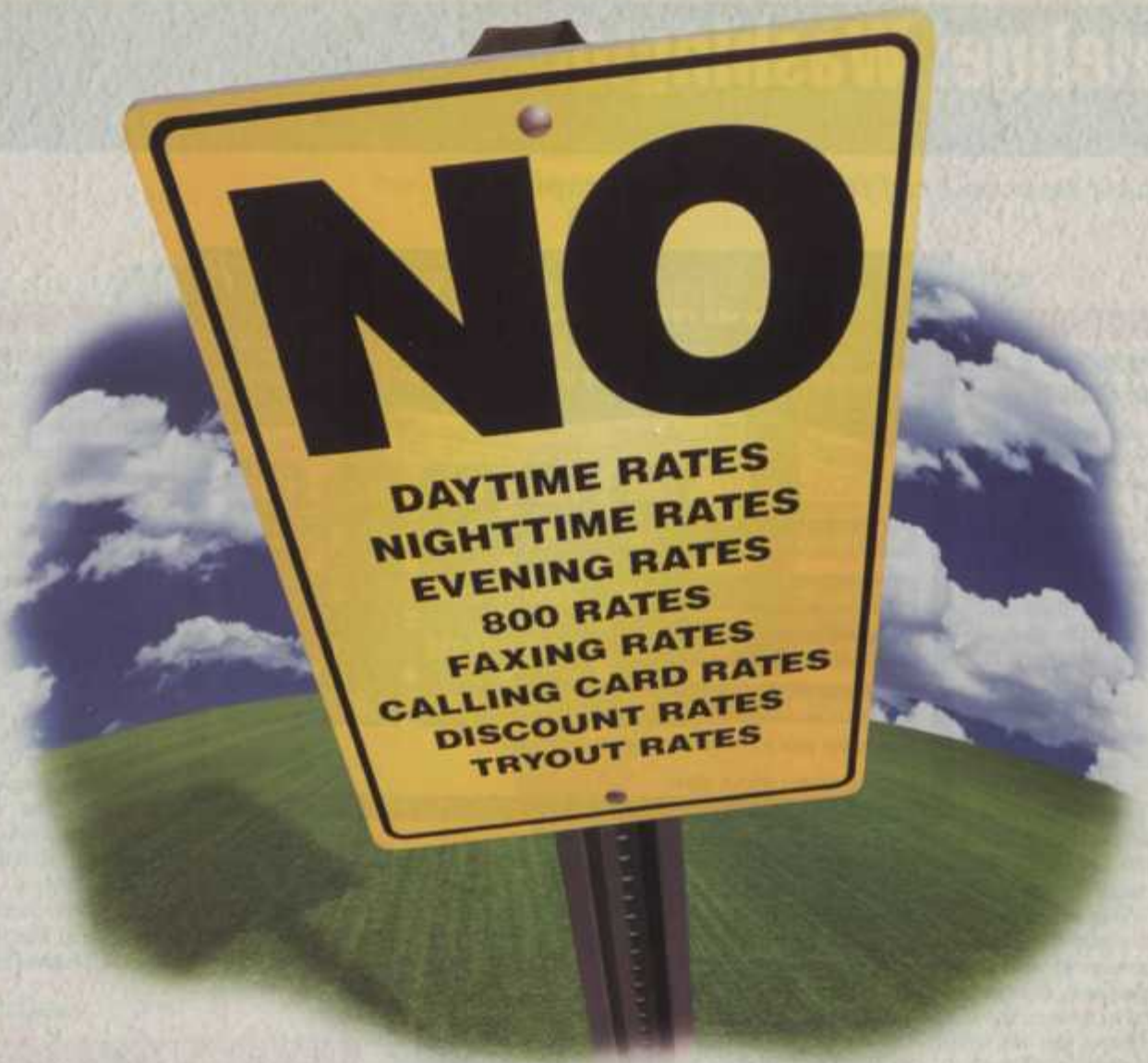
A press-clipping *service can help you spot trademark infringement, says designer Nancy Ganz.*

Nancy Ganz is president of Bodyslimmers™ by Nancy Ganz. She prepared this account with Nation's Business *Contributing Editor Susan Biddle Jaffe.*

Readers with special insights on meeting the challenges of starting or running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

What I Learned

Be vigilant against misuse of your registered trademark. At stake are your company's reputation and market share.



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Dateline: Washington

Business news in brief from the nation's capital.

TAXES

S-Corporation Reform Outlook

Businesses organized as S corporations could soon benefit from legislation introduced recently in both houses of Congress. The House measure is sponsored by E. Clay Shaw Jr., R-Fla., and the Senate legislation by Orrin G. Hatch, R-Utah, and David Pryor, D-Ark. Both measures have bipartisan support.

Advocates of S-corporation reform are urging lawmakers to include the legislation in a budget-related tax package expected to be crafted by the House Ways and Means and the Senate Finance committees in September.

The measures would make it easier for small companies to organize as S corporations and to raise capital to expand. Among other reforms, the bills would:

- Increase to 50, from 35, the number of individuals or entities allowed to own shares in an S corporation.
- Allow some tax-exempt organizations, including charities and employee stock-ownership plans, to own stock in S corporations.
- Permit all members of a family owning stock in an S corporation to be treated as a single shareholder.
- Allow S corporations to own 100 percent of the stock of other S corporations and to own more than 80 percent of the stock of C corporations.
- Allow all S-corporation shareholders to exclude from income most fringe benefits—though not health-insurance premiums—they receive from the business. Currently, shareholders who own more than 2 percent of an S corporation's stock cannot exclude the value of any fringe benefit received from the corporation.

For tax purposes, S corporations pass their income or loss to shareholders of the business. Income generated by S corporations is not taxed at the corporate rate but is distributed to shareholders, who are taxed at their respective individual rates. The same tax treatment is accorded to partnerships and sole proprietorships.

The income of a regular, or C, corporation is taxed first at the corporate rate and then at individual rates when it is distributed as dividends to shareholders.

About 1.9 million U.S. companies are organized as S corporations. The term is derived from an Internal Revenue Service Code subchapter.

—David Warner

Businesses By Type

Number of federal tax filings, in thousands, shows the continuing increase in the number of S corporations.

	1980	1985	1990	1991	1992*
S Corporations	545	725	1,575	1,698	1,791
C Corporations	2,165	2,553	2,142	2,105	2,084
Sole Proprietorships	8,932	11,929	14,783	15,181	15,495
Partnerships	1,380	1,714	1,554	1,515	1,485

*The latest year for which figures are available.

SOURCE: U.S. INTERNAL REVENUE SERVICE

FINANCING

Legislation Could Increase Government-Backed Loans

The Small Business Administration would be able to increase the number of government-backed loans for small-business borrowers under bills approved recently by the House and Senate small-business committees. The proposed changes in the SBA's 7(a) loan-guarantee program would increase the number of guaranteed loans by lowering the percentage of each loan the agency backs. The bills also would charge borrowers a slightly higher fee for each loan.

The bills were introduced in hopes that swift changes in the 7(a) program would replenish the SBA's pool of funds for this year. As of June, nearly 42,000 loans totaling $6.5 billion had been guaranteed by the SBA under the program, and the SBA projects that without the changes the 7(a) program will run out of money by September. Altogether, 36,490 loans totaling $8.2 billion were guaranteed under the program in 1994.

Currently, 70 to 90 percent of a loan is guaranteed, depending on its size. The House and Senate bills would provide for two guarantee rates: 80 percent for loans under $100,000—called "low-doc" loans because they require less documentation from the prospective borrower than larger loans do—and 75 percent for loans over $100,000.

It is uncertain when the bills will go before the full House and Senate.

—Elizabeth Warner

FOR THE RECORD

- A federal court has blocked enforcement of an executive order from the Clinton administration barring companies that hire permanent replacements for striking workers from contracting with the federal government. The U.S. District Court for the District of Columbia rejected arguments made by the U.S. Chamber of Commerce and other business groups that the executive order was unconstitutional, but the court agreed that the order would harm companies. The Chamber has appealed the court's ruling on the constitutionality of the order. The ruling to block the executive order remains in effect pending a decision on the appeal.
- House Republicans, in the first Corrections Day, on July 25, voted 269-156 to give San Diego a permanent exemption from certain waste-water treatment rules under the Clean Water Act. The fate of similar legislation in the Senate was uncertain. The city is expected to be given a five-year exemption, which could be renewed, from the Environmental Protection Agency. NB



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IBM

Managing Your Small Business

Tapping experts in academia; no passing of the buck; competing cooperatively in the Big Apple.

By Roberta Maynard

RESOURCES

University Ties Give Companies An Edge

Where might a small business find help with product development and a host of other business problems? The same place electronics manufacturer Jack Gulati did: a university.

With the help of faculty members at Penn State University, Gulati, president of Fidelity Technologies Corp., in Reading, Pa., recently developed a simulator to help train anesthesiologists. He arranged a similar collaboration with a Swiss university to develop a way to bond gold to platinum. He had worked on the metals problem for more than two years; after he teamed up with the university, the collaborators found a solution in six months.

A 12-year veteran of such partnerships, Gulati is convinced that they offer many benefits to business. A recent survey by the New York-based consulting firm Coopers & Lybrand bears this out. The firm surveyed CEOs of 424 fast-growing companies with revenues of $1 million to $50 million. It found that companies that tap university resources have productivity rates 59 percent higher than firms that don't.

Only 40 percent of the companies surveyed took advantage of academic resources for training and recruiting or for cooperative research and development. Those that did had 21 percent higher projected annual revenues and 32 percent more bank loans, and they were planning 23 percent more major capital investments for the 12 months following the survey.



PHOTO: EARL DIBBLE—BLACK STAR

Collaboration *with university researchers has helped electronics manufacturer Jack Gulati of Reading, Pa., develop software such as this artillery-training program.*

The CEOs with university involvement said the resource they use most is students: 70 percent hire student interns for business projects, and 40 percent recruit students for employment. Forty-four percent turn to faculty members for technical advice. More than one-third of the companies surveyed send their employees to nearby universities for training. 29 percent are involved in cooperative research, and 20 percent use university laboratories or equipment.

"It's a collaboration of technical brains," Gulati says. "They provide an expertise that we don't have, that most small businesses don't have. I think, in the high-tech area, it's the only way small companies can [gain] expertise."

Most universities specialize in certain fields of study. To investigate the possibilities of a collaboration, identify schools that offer what you need, and then talk with their industry-relations officers. ■

PERSONNEL

Eliminating Excuses In The Workplace

If your shop's productivity suffers because employees routinely make excuses for not getting the job done, you're not alone. Employees' excuse making is one of the biggest challenges in business, according to survey responses that consultant James M. Bleech has gathered from more than 2,000 CEOs and senior executives around the country who have attended his seminars.

Bleech, chairman of the Leadership Development Center, a management consulting firm in Jacksonville, Fla., and former owner of a boat dealership, has found that excuses function as defense mechanisms against fear of being blamed, embarrassed, reprimanded, or even fired. This fear is most commonly instilled by a demanding, critical, perfectionist manager.

Bleech says that when employees make mistakes, managers must learn to turn the mistake into a learning experience to diminish fear gradually and get workers to start accepting responsibility. He recommends these steps to shrink excuse making:

- Discuss your expectations with the employee, clearly outline assigned tasks, and explain how the employee's task fits into the big picture.
- Anticipate problems by discussing what the employee will do if the job doesn't go as planned.
- Discuss with the employee where to turn if he or she needs help with the task.
- When the task is complete, discuss its success or failure. Were expectations met?
- What did the employee learn from it?
- Discuss what aspects of the task could have been done differently or more effectively—particularly if the employee failed.

For more on this topic, read *Let's Get Results, Not Excuses!*, co-authored by Dr. David Mutchler (Lifetime Books, Hollywood, Fla., 272 pages, $14.95). To order, call the Leadership Development Center at 1-800-659-1720. —*M. Courtauld McBryde*



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STRATEGIES

Taking A Saturated Market By Storm

Starting a business in a crowded industry in competitive New York City may seem like a recipe for trouble. But by using a big-company strategy, the three founders of the Arbor Group, Inc., have succeeded in taking on the Big Apple's corporate giants.

Amy Friedman, Jaye Smith, and Linda Kline developed a multiple-niche strategy by combining into one practice their three respective disciplines: outplacement, training, and executive search.

This approach allows them to offer the range of human-resources expertise, while other firms tend to specialize in only certain areas.

Before opening their doors, the women agreed that they would intensively cross-sell their services. Each partner introduced her fellow partners to each other's client base, a practice they were careful to continue after new clients began signing on.

They further their big-company image by offering niches within the three specialties. In the outplacement group, for example, counselors, who are cross-trained, specialize in employee categories such as creative people, networking for introverts, workers over 50, fast-trackers (such as investment bankers), and workers who tend to stay with employers for long periods.

The firm's research department, with a staff of three, is used extensively by the counselors to get information on companies and to track which companies are hiring which types of workers.

To convey a cutting-edge image, the firm touts its ability to address current workplace issues, such as executive coaching and fallout from mergers. It also highlights the cultural diversity of its group of counselors, which appeals to the large number of companies that are seeking help with their own diversified work forces.

"People really see us as being different," says Friedman. "Our staff reflects the real world: a combination of old, young, minorities. As a result, we're seen as having a new-generation approach, as dynamic and youthful."

The combination of big-company strategies and boutiquelike service has proven successful. In less than two years, the firm has grown from five to 15 employees. The partners expect revenues this year of $2.5 million. ■



PHOTO: HARVEY GOLDEN

Manhattan transfers: *The Arbor Group's founders, from left, Linda Kline, Amy Friedman, and Jaye Smith, cross-sell their specialties to clients.*

WORK FORCE

Managing Employees Older Than Yourself

As the ranks of older workers increase, many young managers are likely to find their employees to be of an earlier generation. It can be an uncomfortable, even counterproductive, situation.

Personnel Decisions, Inc., in Minneapolis, offers the following suggestions for younger managers:

■ Recognize that older workers' social and work experiences are not the same as yours, and respect those differences. Learning about their personal and professional values and goals will help you develop more-meaningful management techniques.

■ Complement, don't compete. Recognize that each of us has something unique to contribute. When it comes to life experience, you will always lag behind older workers, yet you have skills that launched you into management. Find ways to bring together the best that each has to offer.

■ Help older workers develop additional skills and increase their level of responsibility, just as you would younger workers.

■ Keep in close touch through meetings, phone calls, or electronic mail. Most older workers at some point begin worrying about job security. Managers need to know about these concerns before they affect an employee's performance.

■ Consider older workers your secret weapon. Research shows that the most successful, productive teams include people of diverse backgrounds. Older workers will be assets if you truly respect their input and ideas. ■

SKILLS

How To Speak With Confidence

When addressing a group, it's important to keep your voice in top form and your nerves from showing. Here's advice on how to do that from Barbara Pachter and Marjorie Brody, authors of the *Complete Business Etiquette Handbook.*

First, avoid ice water, which constricts the throat. Also avoid milk products (they coat your throat), carbonated drinks, and coffee and tea (caffeine dries the mouth). Do drink lukewarm water with lemon. As a last resort for a dry throat, gently bite your tongue, which produces saliva. Petroleum jelly on your teeth will keep lips from sticking to them. Thus prepared, you can concentrate on your message.

The 370-page book, which covers everything from making introductions to international protocol, is available for $29.95 at bookstores or by calling the publisher, Prentice Hall, at 1-800-288-4745. To learn more on addressing business audiences, get *Speaking Magic,* by Carolyn Dickson. The 170-page book costs $14.95 plus $3 shipping and can be ordered from Voice-Pro Inc. at 1-800-261-0104. ■

NB TIP

B&B Wisdom

A realistic and practical view of innkeeping can be found in *The Upstart Guide To Owning and Managing A Bed & Breakfast,* by Lisa Angowski Rogak. Topics include site selection, cash flow, marketing, and daily operations. The $15.95 book is available in bookstores or by calling Upstart at 1-800-235-8866. ■

Making It

Growing businesses share their experiences in creating and marketing new products and services.

'You Have A Purpose In Life'

By Michael Barrier

For most business people, the bottom line is, essentially, an abstraction. For H. Douglas Cook, it's a human being—his 23-year-old son, Brian, who has cerebral palsy. It's because of Brian that Doug Cook is the principal owner of Mountain Shadows, Inc., in Escondido, Calif.

By the time Brian Cook was 18 months old, his parents knew that he had suffered irreversible brain damage. In 1986, when Brian was 15, they placed him at Mountain Shadows, a residential facility for the developmentally disabled.

Then Mountain Shadows' management ran into licensing problems, and, early in 1990, the owners approached Cook about selling to him.

"My background is as an entrepreneur," says Cook, 47, "and I said, 'Sure, I can do that.' I thought it would take me six or nine months—at most, a year—to put this together. Then I would continue with my life, and this place would be operated by professionals."

By the end of 1991, though, Cook had not been able to put the necessary financing together. He finally bought Mountain Shadows through a 100 percent leveraged buyout.

His task now, Cook says, is "to build a corporation that can survive anything that happens." And to do that, he must juggle conflicting demands of a severity that most entrepreneurs never experience.

The 105 residents range in age from 7 to 63, and almost all are in wheelchairs. Mountain Shadows is, accordingly, a very labor-intensive operation, with 170 employees, and Cook tries not to interfere with their work. "I don't have the professional expertise" to oversee the care of the residents, he says. "I try to stay out of the way of the administrators."

When he took over, Cook's strategy had two key elements. Within Mountain Shadows itself, he introduced a more open management style that recognized the importance of the employees (and reduced turnover dramatically). He also envisioned an expansion to other facilities, as owner or as manager with option to purchase, to give the corporation a more solid financial base.

The idea was to acquire failing facilities cheaply, make them profitable, and then sell them (preferably to their administrators, through leveraged buyouts)—and so

Inspired *by his son Brian, right, who has cerebral palsy, H. Douglas Cook now operates a residential facility for the developmentally disabled.*



far it's working. Mountain Shadows now owns one facility for the elderly and manages another. The corporation cannot extend itself very far, Cook says, but it must do so, "or I don't see a big future."

Cook marvels at the twists of fate that have placed him at the head of Mountain Shadows.

"If you had put 100 different business choices on the table four or five years ago," Cook says, "the last one I would have picked up is this business. But now that I'm here, and I see the opportunities that are before me with this corporation, I work late, I'm up early, I'm excited."

His life is very different in other ways from what it used to be. "I was an alcoholic," Cook says. "I would end up wrecking a business because I was not paying attention to the things that needed paying attention to." He quit drinking almost 10 years ago. "The lucky part for me," he says of his alcoholism, "was that I didn't lose my family."

In effect, Cook now has the chance to build the kind of company he might have built years ago, while gaining the added satisfaction that Brian's presence brings.

Brian's mental development is limited to that of perhaps an 8-year-old, Cook says. "People talk about how regrettable it is, but when I think about Brian, if I had a magic pill and I could change him, I wouldn't know what to change him into. Because he's really cool; he's a wonderful guy. Whenever I have a tough time or I'm depressed, I just need to spend time with Brian or one of the other residents, and my problems go away.

"I feel that you have a purpose in life," he says, "and I feel that my purpose is this business." ■

Targeting College Spenders

By Janet L. Willen

The basketball hoop in the company's atrium together with the blue jeans on Ian S. Leopold, the firm's president, tell much of the story of Campus Concepts. As Leopold says, his Baltimore company speaks the language of college students.

He was a student himself—a senior at Hobart College, in Geneva, N.Y.—10 years ago when he started Campus Concepts. It began with an advertiser-supported free shopping guide for Hobart students and has grown into a nationwide, multimillion-dollar college marketing company that focuses on students' specific needs.

When he was in school, says Leopold, now 31, students were hard-pressed to get information on the college town, and most of them didn't get to know their local merchants until well into their first year.

Leopold was president of Hobart's Entrepreneur Club in 1985, when, he says, "I suggested we build a product that focused strictly on the local market and the local students, produced for students, by students, tying in the local retailers, and offering special deals to bring students into their stores."

That idea became Campus Concepts' inaugural product—a 44-page shopping guide distributed free to students in January 1986. It contained local advertising and had eight pages of information on the college and area services.

That same year, Leopold wrote a business plan for Campus Concepts as an independent-study project. His professor didn't see eye to eye with Leopold and gave him a failing grade, preventing him from graduating with his class. "So I set out to prove the professor wrong," Leopold says.

He stayed in Geneva that summer to redo his paper, and he worked on the second Hobart guide. In four weeks, he sold more than 100 ads and made a $5,000 profit. In the fall he entered Northwestern University's Kellogg School of Management, in Evanston, Ill., and hired someone to do the next editions. He returned to Campus Concepts full time in January 1990, after his 1988 graduation and 16 months working for an insurance company in Chicago.

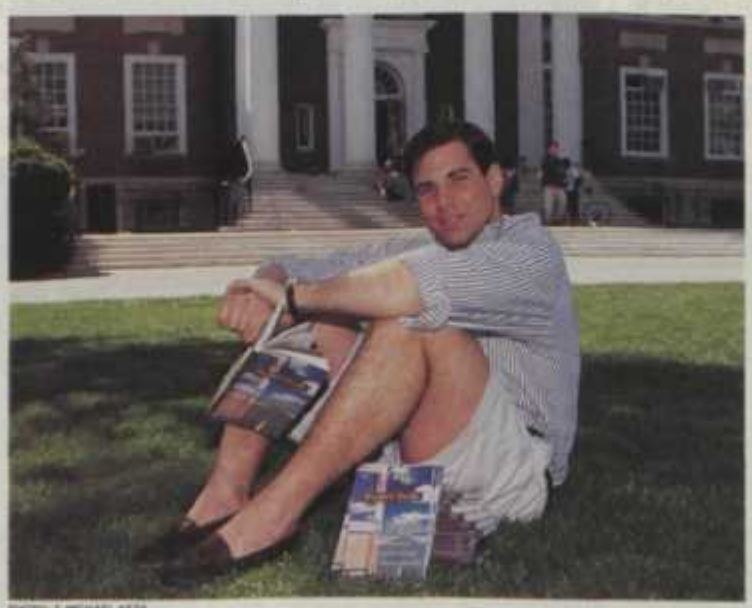


PHOTO: T. MICHAEL KEZA

College life *taught Ian Leopold, publisher of the* Unofficial Student Guide, *how to market on campus.*

Leopold now has 16 employees, 12 of whom work full time producing various editions of the 150-page guide. Called the *Unofficial Student Guide*, it is distributed free and reaches 930,000 students at 65 colleges.

The guide reflects Leopold's belief that college students make up a major market and are prime candidates for developing product loyalty. The average student's buying power is about $5,000 a year, he says, which comes to $65 billion a year for the entire U.S. college population.

"Ask someone who's 27 years old and is working at a big company, 'When is the first time in your whole life that you ever bought laundry detergent?' If they were college-educated, it was pretty much when they went to college," he says.

Through an exclusive contract with the National Intramural-Recreational Sports Association, which arranges many college sporting events, Campus Concepts places advertising at member schools' recreational facilities. It also has a cooperative product-sampling program that gets national advertisers' products, such as Ray Ban sunglasses and Right Guard deodorant, into students' hands at member schools.

Leopold expects revenues of about $4.5 million this year and aims to top $10 million in 1997.

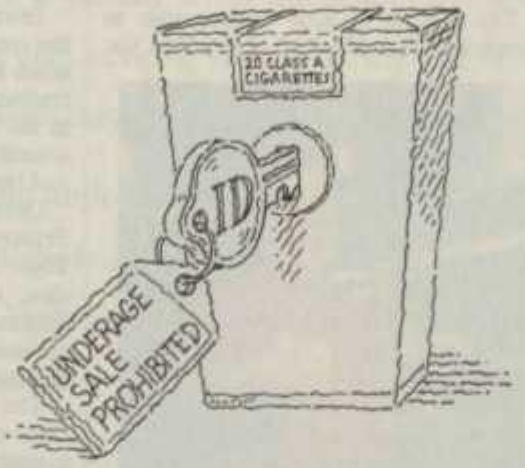
Despite his financial success, he says, "People like me are not motivated by money." They're working on their visions, he adds.

Leopold hopes that in two years, people will think of Campus Concepts when they think of college marketing. After that, he isn't sure what direction he wants for his company.

"I want to focus on one vision at a time," he says. ■

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Putting It All Together

By Dorothy Elizabeth Brooks

Can't follow the murky instructions telling you how to put together your new picnic table? You're all thumbs anyway? Frustration Solvers, with operations in North Carolina and Georgia, was created for people just like you.

James Kovolsky had worked his way through college and graduate school assembling items for people—virtually anything that came in a box, from bicycles to office furniture. It was steady work, and there was plenty of demand.

So when James and his brother Peter fell victims to a sluggish economy four years ago and were both laid off from their respective sales jobs, they revived the idea.

To test-market the notion, James, a former cable-company executive, placed a $23 ad in his local newspaper in Treasure Island, Fla. Headlined "You Buy It, We Put It Together," the ad generated $600 worth of business. Encouraged by the results, James moved to Charlotte, N.C., where his brother had been working for a food service company. Working out of Peter's condo, the Kovolskys launched Frustration Solvers in February 1992.

Initially, they used radio and print advertising aimed at consumers. But they quickly realized that the most effective route to sales meant pitching their service as a "sales enhancement" to retailers.

Using this strategy, they have developed relationships with an array of toy stores, office-furniture outlets, lawn-and-garden shops, sporting-goods stores, and home-improvement retailers. The stores pay nothing to work with the brothers; the arrangement merely enables sales people to pass the Frustration Solvers phone number along to customers who are loath to assemble the merchandise themselves.

Dorothy Elizabeth Brooks is a free-lance writer in Marietta, Ga.

Frustration Solvers will go to the customer's home and put together whatever item has been purchased, at prices ranging anywhere from $45 for a simple barbecue grill to more than $400 to assemble and install a deluxe basketball hoop.

The cost is of little consequence to people like Jean Murdoch of Marietta, Ga. She used to beg friends to put things together for her, or she would spend fruitless hours on the phone with technicians as she tried to decipher instructions.

"I had finally gotten to the point where I thought I just can't have a lot of things in life because I can't put them together," she says. But once Murdoch tried Frustration Solvers, her assembly nightmares ended. The company has put together a pantry cabinet and some pieces of fitness equipment for Murdoch. And she feels certain she will call again.



PHOTO: T. MICHAEL KEZA



PHOTO: NANCY PIERCE—BLACK STAR

Frustration Solvers' *James Kovolsky, above, at a Norcross, Ga., Home Depot store, and brother Peter, at a Lowe's in Charlotte, N.C., end customer headaches by assembling such items as furniture and barbecue grills.*

Such customers helped Frustration Solvers do $80,000 in sales within 10 months of opening. The company's turning point, however, came at the end of that first year, when retailers started hiring Frustration Solvers to assemble and maintain products for display in their stores. "That was volume work," says Peter, 45. "That was the beginning of the success of this company."

Revenues have tripled every year since, with the firm projected to bring in well over $1 million this year.

In-store work accounts for about half the company's business. So in June 1993, when a sporting-goods chain asked Frustration Solvers to service a series of stores in the Atlanta area, James established a second headquarters, in Norcross, Ga., and began amassing new accounts.

Operating from two service bases, Frustration Solvers counts Home Depot, Toys 'R' Us, Lowe's, Service Merchandise, and Sports Authority among its clients. The company employs as many as 70 assembly technicians during the busy summer and Christmas seasons.

The Kovolsky brothers contend that their advantage for winning customers is a reputation for quality, one they have earned by paying above-market salaries to attract the most-skilled employees. The partners maintain that their crews work faster and perform better than those of most competitors.

"I will tell people we are the most expensive company in town, and I explain the reasons why," says James, 47. "We still get eight out of 10 of those jobs."

Once a retail client is on board, the brothers emphasize service, making weekly visits to the store and performing odd jobs, such as deliveries or repair work, for free. Such a policy ensures a good reference for future accounts.

"We know they are going to go on and on about how much they like us," says James. "That will get us another store and another store and another store."

Eager to expand while the market is sizzling, the brothers are thinking about franchising or finding investors to fuel their growth. "The business is out there," says James. "We've got retailers calling us from other states. They've heard about us, they know our reputation, and they want us to come in there and work." NB



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COVER STORY

Back From The Brink

By Michael Barrier

The looming prospect of business failure can announce itself in many ways. You let yourself get a little too dependent on one big customer, and it suddenly goes out of business. You never miss a payment to your bank, but for some reason it gets nervous and shuts down your revolving line of credit. You dominate a comfortable niche market for years, but then a big competitor starts shouldering its way in.

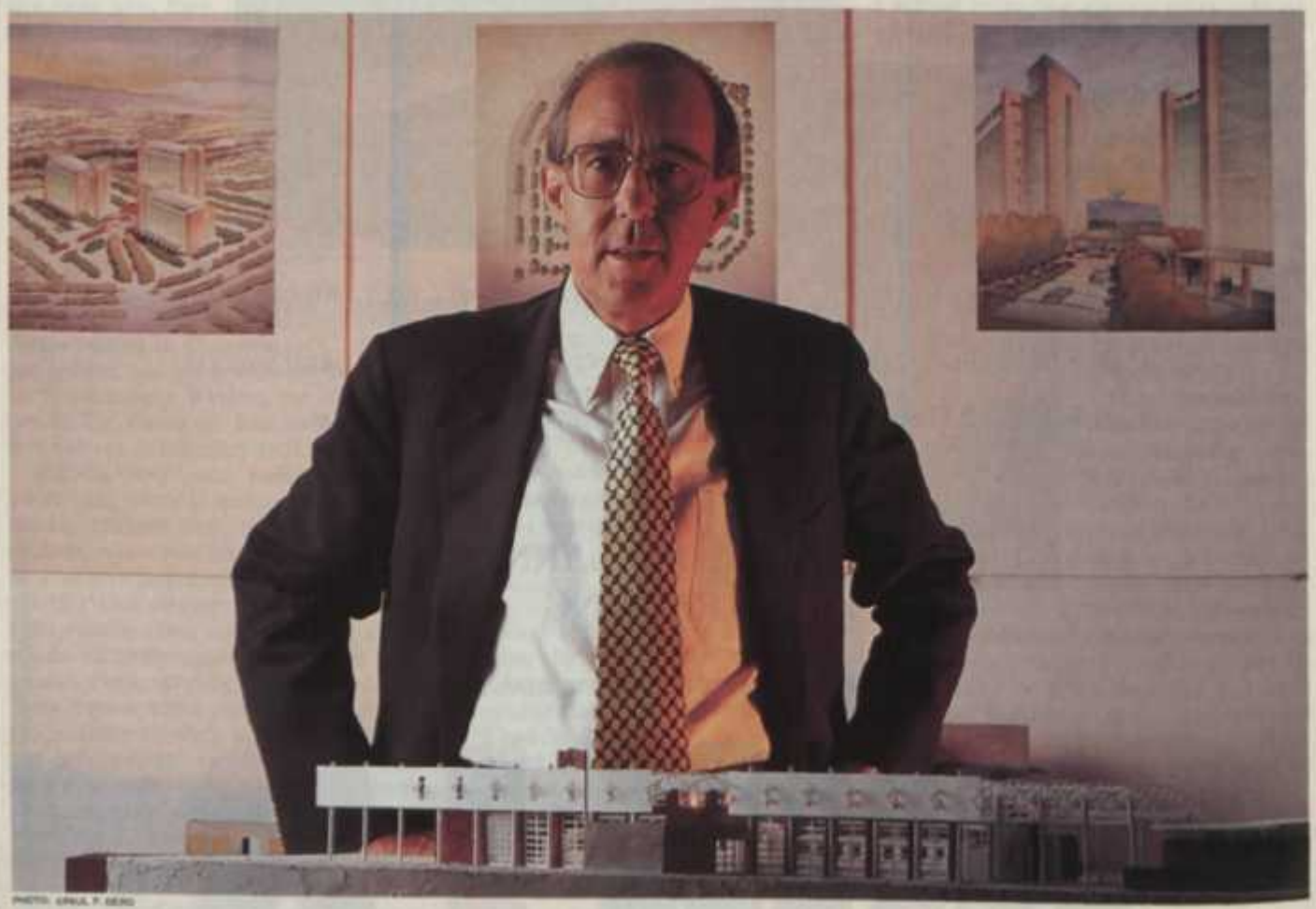
Your world suddenly gets much colder—but, like a chill wind, a harsh new business environment can be energizing.

A threat to a company's existence can force its owners to confront squarely the most fundamental of questions: Why should this company continue to exist? If they come away from that self-examination convinced of their company's worth, to themselves and others, the business can emerge from its trials with its life expectancy greatly enhanced.

John Riggs, owner of a Tucson, Ariz., architecture firm, stumbled about as close as you can get to the edge of the abyss: He filed for bankruptcy under Chapter 11.

Architecture One almost disappeared because "we got wrapped up in the building boom of the early '80s," Riggs says. When that boom collapsed, Architecture One collapsed along with it.

"The pressure was building all around me to liquidate rather than reorganize," Riggs recalls. "I think I threw my hands in the air for about 24 hours and said, OK, we'll liquidate. When I backed away from that decision long enough to realize what it meant, I went back to the attorneys and



"The pressure was building *all around me to liquidate," John Riggs says—but he fought off the threat of failure.*

Sometimes it takes a brush with death to bring a firm to life.



told them I wasn't going to do it."

Architecture One is fundamentally different now, and not only because it is once again profitable. Riggs' ordeal led him to a new understanding of what he wants his firm to be like.

In its heyday in 1987, Architecture One had three partners, 99 employees, and offices in both Tucson and Phoenix. That growth "was something that I didn't object to," Riggs says, but Architecture One now reflects his belief, born of his trials, that architecture is so personal a service that large size is a disadvantage.

The company now has about two dozen people, is owned by Riggs alone, and operates under a mission statement that calls for commitment "to factors that promote the firm's longevity." If there's another boom like the one in the '80s, Riggs says, he won't use it as a vehicle to make Architecture One big again.

Other companies, of course, have grown very large from beginnings even smaller than Architecture One's—but the differences between some of them and John Riggs' firm are less than you might imagine.

Authors James C. Collins and Jerry I. Porras studied dozens of large companies, tracing each of them back to its origins as a small firm, while writing *Built to Last: Successful Habits of Visionary Companies* (HarperBusiness).

The most enduringly successful of those companies "have a pattern of not having had high degrees of success early," Porras says. Instead, they typically struggled for years. Hewlett-Packard, for example, came up with a string of poorly received products—a urinal flusher was one—before World War II contracts finally gave the company solid footing.

"What early difficulty tends to do," Collins says, "is to help you sort out what really contributes to success." In other words, some of the most successful large companies used the threat of failure in much the way that John Riggs did: to define themselves.

The entrepreneur who is desperately trying to keep a business afloat may think that self-definition is irrelevant, at best, to his needs, compared with such elementary turnaround techniques as speeding up receivables and slowing down payables.

Likewise, talk of a business's purpose may seem a little fuzzy and remote, compared with the concrete demands of running that business. But there is good reason to believe that adopting a broader perspective can contribute to short-term salvation and then, even more powerfully, to long-term success.

Once a business owner has a strong sense of what the business is all about, he or she can distinguish more clearly among the many alternative paths that open up. The choices—whether they involve marketing, customer service, personnel, or any other business aspect—become clearer, if not always easier to make, when there's an overarching standard to measure them against.

That is the broadest lesson suggested by the experiences of companies that, like Architecture One, have profited from their brushes with failure. Here are other lessons:

A clear purpose is liberating—not limiting—in the fight for survival.

A company that understands what is truly central to its business can adopt a new flexibility in tactics even while keeping faith with that core. Beverly and Ted Paul, the owners of Beautiful America Publishing Co., in Wilsonville, Ore., have surmounted financial troubles in just that fashion.

Their crisis came when a bank that had eagerly sought their business shut down their $250,000 revolving line of credit abruptly and began drawing down their receivables. Other banks, when they learned of Beautiful America's situation, refused to extend credit, too.

The Pauls were publishing richly illustrated photographic books devoted to different regions of the country, as well as calendars in the same vein. Their backs to the wall, they realized their business was



PHOTO: KIM KELLY—BLACK STAR

"We knew *there was a market," says CEO Tom Sawyer of National Applied Computer Technologies, an Orem, Utah, company that emerged from Chapter 11.*

about not really books but beautiful color printing of photographs of animals and natural wonders. The vehicles for those photographs were secondary to that larger purpose, and so the Pauls began looking beyond bookstores and pursuing new commercial outlets vigorously.

Among their best new customers were, ironically, banks. "There are banks all over the country that want to do custom calendars," Ted says. "Maybe a bank in Utah wants to do a Utah calendar with Utah pictures." The Pauls could accommodate them. Because those calendars were customized, the banks paid in advance. "This helped immensely on cash flow," Ted says.

So successful have the Pauls' made-to-order calendars been that bookstores now account for less than half of Beautiful America's $1 million in annual sales. And the Pauls have fought their way back without compromising their reason for being in business.

"We will not deviate from our quality," Beverly Paul says. Whereas a lot of cheap calendars go into the wastebasket, she says, "ours go up on the wall."



PHOTO: DAVID TOERGE

Authors *Jerry Porras and James Collins believe that difficulty can force a business's owners to figure out what contributes to success.*

It can take awhile for your purpose and the market to coincide.

If the Pauls had an advantage in their struggle, it was that their business's purpose came all but ready-made—they had only to recognize it and act on it. When a business is evolving, though, and its purpose is assuming a new and more serious shape as time goes by, the task confronting a business's owners can be much more daunting: They must adhere to a purpose that is a moving target, even while survival is threatened.

Such was the case with National Applied Computer Technologies (NACT), an Orem, Utah, company formed in 1982 to make telephone switching equipment. At the time, entrepreneurs were buying fistfuls of WATS lines and selling chunks of time to other local businesses at rates lower than standard long-distance rates. It was NACT's switching equipment that enabled them to control how their lines were used and how customers were billed.

"From '82 to '85," says Chairman and CEO Thomas E. Sawyer, "we were growing so rapidly that we literally could not keep up with building the orders we were getting."

In the wake of the AT&T breakup, though, the entrepreneurs who had been the backbone of NACT's business grew cautious, Sawyer says, "and our backlog, which was over $1 million, suddenly went to about $5." Sales, which had been $3.2 million in 1985, dropped precipitously, he says, because "no one was sure what the regulators were going to do."

In effect, regulatory changes all but

The Most Dangerous Game?

Popular mythology has it that starting a small business is pretty much like going on the O.J. Simpson jury: You may be in the spotlight for a few months, but the odds are that you'll wind up being ejected. One of the most common statements of this belief is that eight of 10 new small businesses fail within a few years of their founding.

Like a lot of other popular myths, this one is wrong. Outright failures of small businesses are in fact remarkably rare—if failure is defined, reasonably enough, as a business closing that results in losses to creditors either because the firm files for bankruptcy or because it simply closes its doors without paying its debts.

In 1988, for instance, 63,000 businesses of all sizes filed for bankruptcy, and an additional 57,000 failures were recorded. But these were mere drops in the bucket when measured against 20 million or more active businesses.

The confusion comes in mixing up business *failures* with business *dissolutions*. Lots of small companies go out of business for reasons that probably shouldn't be called "failure"—the owner may have gotten bored, for instance, may be disappointed with the returns, or may simply want to try a greener pasture. If an entrepreneur closes one business and starts another one that is more successful, that's more reason for celebration than concern.

Bruce D. Phillips, director of the Small Business Administration's office of economic research, points to various studies suggesting that dissolutions may outnumber failures by four to eight times.

Even taking all the dissolutions into account, a new firm has about a 40 percent chance of surviving more than six years, Phillips says, and if it enjoys enough success to create any jobs at all in that time, its chances of surviving rise to about 65 percent. "Growth seems to be a very strong correlate of survival," he says.

Two Dun & Bradstreet Corp. economists, Joseph W. Duncan and Douglas P. Handler, offered an even more encouraging statistic in a study published last year: Almost 70 percent of all companies that started operations in 1985 were still active nine years later. They added a caveat, however: "This high survival rate is directly tied to D&B's very strict definition of a firm"—a definition much tighter than definitions used by federal agencies in that it excludes "casual" businesses, such as the carpenter who does work on the side or the free-lance writer with a home office.

"Many of these 'casual' businesses undoubtedly fail in the first three years of life," the economists wrote, "giving rise to the myth of high rates of failure that is misunderstood as being representative of 'real' small businesses."

But, of course, even the most "casual" small business is "real" to its owner. The wide currency of inflated statistics about small-business failure may attest to just how "real" those businesses are and how seriously their owners regard both them and the threat of failure.

closed a door of opportunity that had opened a few years earlier. It might have seemed logical, in that situation, for the owners to simply cash in their chips and walk away. But they didn't, because they had acquired a larger sense of what NACT could be. "We knew there was a market," Sawyer says. "We just had to figure out a niche that we could play in."

Promised funding fell through, and NACT's bankers eventually yanked their $500,000 line of credit. Sawyer and other members of the board started buying more stock and personally guaranteeing the company's debts. "At one point," Sawyer says, "my personal net worth was probably down to almost nothing because everything I had was pledged. But I never doubted it would be successful."

In 1990, the Utah company was forced to lay off 15 of its 22 employees and file for Chapter 11 bankruptcy.

By the time NACT got out of Chapter 11 a year later, sales were picking up. Sawyer had been right: New uses for its switching equipment were catching on. The telephone debit card was one; international call-back—through which calls placed overseas to the U.S. can technically originate in the U.S. at lower rates—was another. Sawyer estimates that the company now derives 80 percent of its revenues from markets that simply didn't exist a couple of years ago.

He expects that the firm's growth will bring it to $40 million to $50 million in annual sales in about a year. To finance that growth, NACT was acquired last year, through an exchange of stock, by GST Telecommunications, of Vancouver, Wash.

When you understand your business's purpose, put it in writing.

"If you don't reduce it to paper," Architecture One's John Riggs says of his firm's mission statement, "it just doesn't stick. Reducing it to paper really forces you to think about what you're doing."

Judy Creiner's 11-year-old Dallas firm, Mobilefitness, operates under a mission statement, too, which she drew up after her company passed through two potentially lethal crises.

Mobilefitness has 64 employees, most of whom are part-time; it runs fitness programs at seven corporate gyms and offers health seminars and instruction at the offices of other clients. In 1987, Creiner's principal client at the time shut down its gym and wiped out 60 percent of her revenues; in 1990, when she still had only two full-time employees, she lost both of them to a competitor within two weeks, seriously jeopardizing her ability to carry out many of her contracts.

By the time she got her company through those two crises, Creiner knew why she wanted it to survive, and she put that new understanding of her company's role into "The Mobilefitness Vision." It reads in part:

"To be pre-eminent in the health and wellness arena.

"To provide our members with unlimited opportunities to make healthy lifestyle changes in a success-oriented and supportive environment."

Such a mission statement can bring not just an enhanced sense of purpose but also the freedom to turn down offers that may be lucrative but are not consistent with what the owner wants the company to be. "It was really a liberating feeling, the first time I said no to a potential business transaction," Creiner says. "I knew I had to, and when I got off the phone I felt great."



PHOTO: SARAH KOCOS—THE DALLAS MORNING NEWS

Mobilefitness, *Judy Creiner's Dallas firm, operates under a mission statement that grew out of two brushes with disaster.*

Moving forward can mean moving back.

Sometimes a company can slip toward a

Continued on Page 25

Repair Manuals

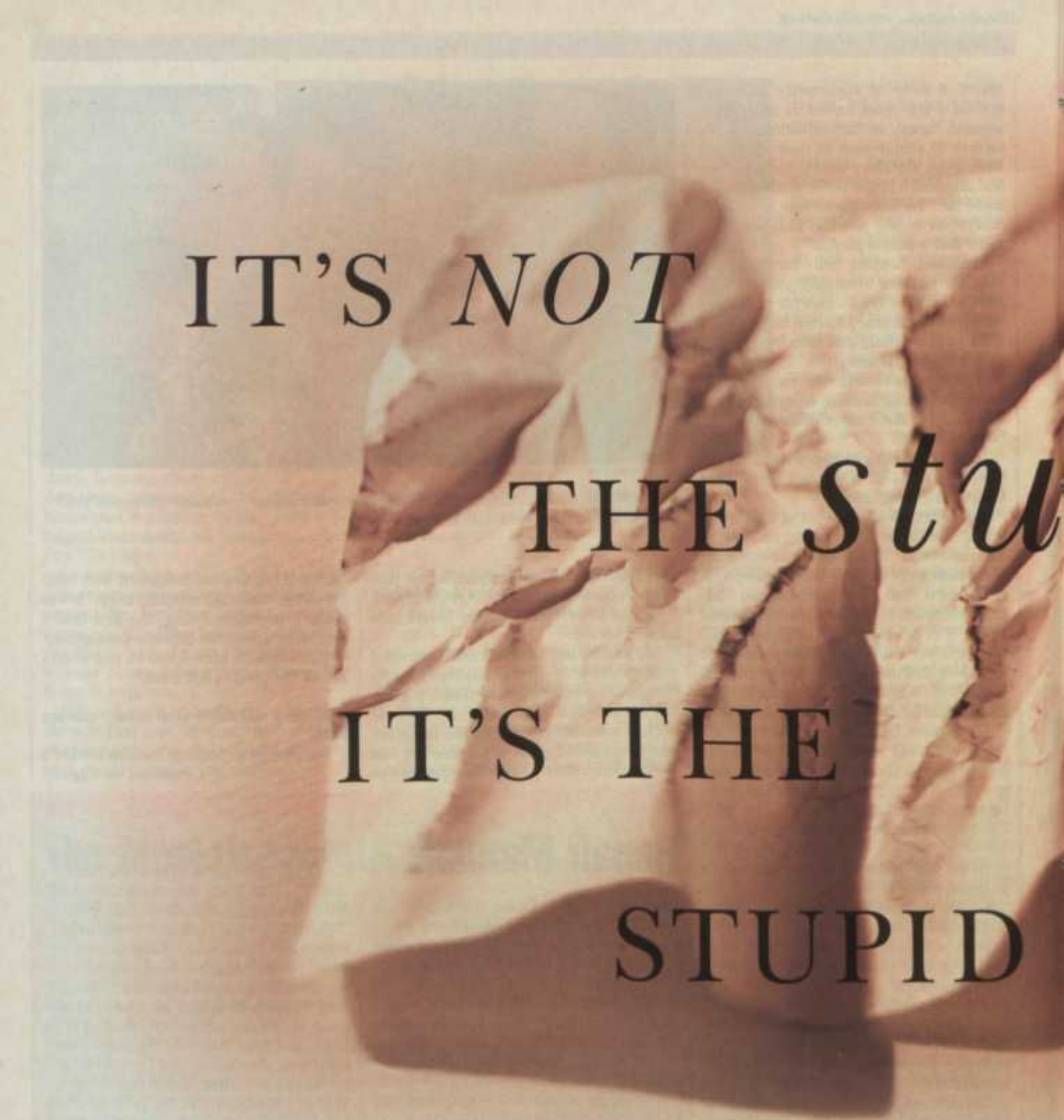
Running a small business is in many ways like taking care of your car: If you maintain your vehicle properly and drive carefully, you probably won't wind up in the ditch. And for a small business, tending to the vehicle means managing cash flow properly—since cash flow is, as author and consultant James C. Collins puts it, "the engine and fuel of a small company."

The basics of cash-flow management, as Collins summarizes them: "Get the products out or get the services done, and collect the money. Keep your receivables short. Pay your payables on time, but not necessarily too early. Turn over your inventory fairly quickly, so you don't have cash tied up in that."

Well, everyone knows *that*, just as everyone knows that you should change your oil every 3,000 miles or so. But, of course, not everyone does it. As Collins observes, "As a company becomes large, people don't ever have to think in terms of cash flow and inventory turns and receivable days and payable days and all that stuff"—or, at least, they think they don't have to, until the roof starts falling in.

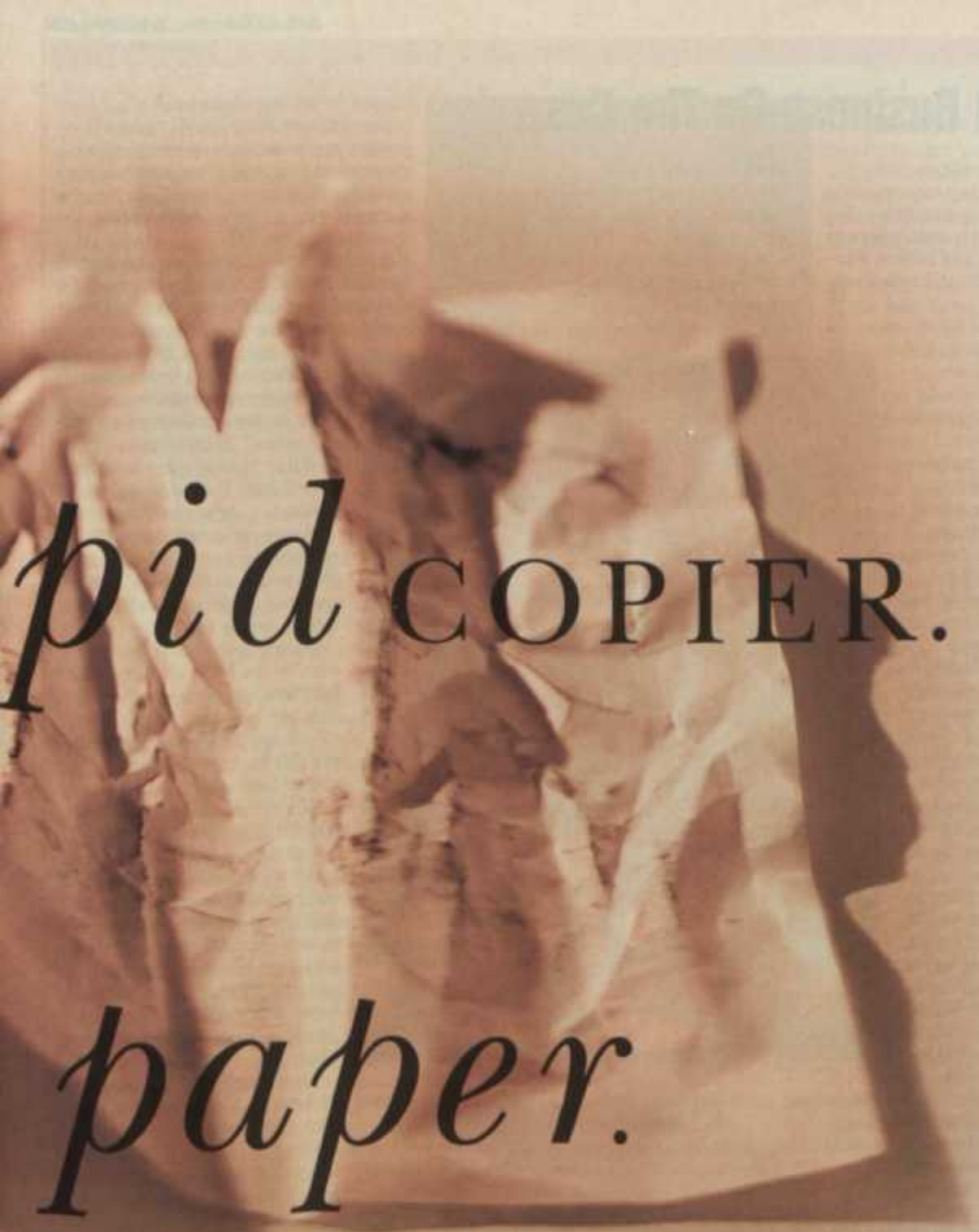
Once a company stalls, it needs help from a good mechanic, of course, and there is no shortage of books telling troubled companies how to cut costs and deal with layoffs and so on. One solid new entry is *The Art of the Turnaround: How to Rescue Your Troubled Business from Creditors, Predators, and Competitors,* by Matthew L. Schuchman and Jerry S. White (AMACOM, $24.95). It offers hard-headed counsel on avenues open to distressed businesses, including bankruptcy.

Over the longer term, there is no better way for a company to protect itself against failure than to understand why it wants to remain in business. Collins and Jerry I. Porras, in *Built to Last* (HarperBusiness, $25), offer persuasive evidence of that, based on their extensive research into the histories of dozens of well-known companies. A little entrepreneurial introspection can be the best kind of preventive maintenance.



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One Small Business On The Cusp

Most small-business people can tell you war stories about how they came close to failure or how they finally succeeded. But it is less common to find a small company poised between success and failure. Earlier this year, Santos Inc., in Little Rock, Ark., was one.

In effect, Santos began life not as a company but as an appealing product; and its founder has been working to give Santos the solid footing that only a strong identity as a company—as an entity greater than anything it makes—can provide. The question was whether Santos would be able to redefine itself quickly enough.

Santos takes its name from its only product so far, a highly seasoned, garlicky cheese spread called Granddaddy's Santos Cheese. There really was a granddaddy—Barrett Hamilton, a Little Rock liquor distributor who owned a summer home overlooking the beach at La Jolla, Calif. There he encountered a bartender named Santos, who served a cheese spread whose recipe he wouldn't share. Frustrated, Hamilton tried mixing a cheese spread of his own that would match the flavor of Santos' spread, and he finally succeeded.

Hamilton died in 1977. He never did anything more with his spread than serve it to family and friends, but his grandson, Andrew Webre, 27, began selling it in 1991. Ironically, though, he won't be able to call the spread Granddaddy's much longer.

When Webre (the family pronounces the name as if it were spelled Webb) started Santos, he was concerned that some company that already used the name Santos might object. None did; but when Webre and his wife, Sarah, returned to the business after their wedding last February, he recalls, "we had a little letter from our attorney, saying, 'You're being sued.' "

A company that used the name Granddaddy's for its noncheese food product was claiming trademark infringement, so Webre will drop the name Granddaddy's when new labels are printed.

In other ways, too, running Santos Inc. has been a hard-won education for Webre, who left the University of Arkansas to start the company early in 1991. After four years, Santos has yet to show a profit. "Every year," Webre says, "we put a little bit more money into it, and we learn something."

He first aimed the cheese at specialty food stores. "When we started," he says, "we thought, this is such a good product, we're going to be very picky on who we sell it to. We're going to sell it for a lot of money, and people are going to be clamoring for it. Well, that's not the way you make money."



PHOTO: GWESLEY HITT

Will demand *for its delicious cheese spread bring success to Santos Inc. of Little Rock, Ark.? Founder Andrew Webre and his wife, Sarah, think they've turned the corner.*

One big problem: Santos Cheese must be refrigerated. "Shipping costs are outrageous and just price the product out of the market," Webre says. Worse, some small specialty shops don't have refrigeration. But if the cheese were made in a shelf-stable form, it would be a totally different—and inferior—product, without the distinctive tang of fresh garlic.

Webre now believes that "the way to make money is volume." When he attended two major food-industry trade shows for the first time last year, he says, Santos got "a phenomenal response" from grocery chains. Some grocery chains, like Harvest Foods and Kroger in Arkansas, already carry it, but some chains' policies impose forbidding obstacles.

For example, Webre says, "a lot of grocery stores won't even consider" single-product companies "because you can't maximize their buyer's time." He plans to come out with a couple of new cheese products early in 1996.

A lack of bank financing has also limited Santos' distribution. "Giving you money for a perishable product"—one that can't be resold—"isn't what they're interested in doing," Sarah says. With no collateral, Santos hasn't been able to hire sales representatives; a couple of brokers produce only "nominal orders," Andrew says.

Webre has had other headaches to deal with. For one thing, the cheese is a highly seasonal product; sales are concentrated in the roughly three months between Halloween and the Super Bowl, and production peaks in the six months before that.

During peak season, Webre says, he has hired as many as six part-time temporary workers to help him pack the cheese. In the off-season, the Webres themselves are able to make and pack the cheese they sell.

"We've had all the usual headaches with temporary people," Webre says, citing one case in which a careless worker, stamping dates on labels incorrectly, forced him to sort through 350 cases of cheese, checking the label on each container. With new distributors and grocery-chain accounts, he hopes, there will be enough volume that he can hire permanent employees.

Despite all their travails, the Webres have felt for some time that, in Andrew's words, "1995 will be the year for us"—the year when they finally establish themselves. The other possibility: that they would have to "close the doors and find something else to do."

All the signs are that Santos Inc. is going to keep right on making its cheese spread.

The summer food shows and some aggressive cold-calling have yielded an upsurge in orders, Sarah Webre says. Prospective customers, who hung back in past years even though they were impressed by Santos' product, are finally stepping forward. "They just wanted to make sure we were going to stay in business," Sarah says.

For the Webres, it appears, as for so many other small-business people, perseverance is paying off.

Continued from Page 21

crisis because it has lost sight of a strong purpose that it once took almost for granted. That happened at Cramer Products, a Gardner, Kan., manufacturer of sports-medicine products and training-room supplies.

Cramer, founded in 1918, has long been the leader in its field. When Thomas K. Rogge came into the company as CEO in 1991, he says, "the problems weren't as obvious as they soon became," because Cramer was still profitable—although sales were flat—and the company was making a major effort to market a line of retail products called Bo Med (named for Bo Jackson, the now-retired baseball and football star).

"There was a strong desire to have a retail presence," Rogge says, "and Bo Med was going to be the vehicle to do that." But it soon became obvious that the Bo Med line was failing, and beyond that, Rogge adds, "the company had become somewhat arrogant, and maybe not market-driven."

In the aftermath of Bo Med's failure, says Tom Wealand, Cramer's vice president for marketing, he and Rogge and the other managers agreed to go back to what the company's founders did: "innovate and teach." Cramer created a department to work directly with athletic trainers and other users of Cramer products, he says, "to find out what they needed, instead of trying to sell them what we could make easily."

A flood of new products, Wealand says, led to impressive sales gains in markets that Cramer had assumed were flat. There's "no question" but that feedback from users of Cramer's products has picked up in the past few years, he says, because "they know our head's back in that game" of welcoming innovation.

Cramer, whose annual sales are around $11 million, is expanding into retail again—but this time under its own name rather than the Bo Med label. "We're trying to leverage the Cramer name," Rogge says, tapping a market of weekend athletes who already know Cramer from their school days.

Managing success can be even harder than avoiding disaster.

"The way I feel about it," Rogge says, "we just did what we had to do to survive and succeed. Now the biggest hurdles are coming for us as we continue to be successful and have to evaluate what opportunities to pursue. I think those decisions are harder to get your arms around than those you have to make just to survive."

Retail has not only its promise, of course, but also its perils. A major chain, for instance, might insist that Cramer put its products in drugstores on a consignment basis. And Cramer is vulnerable to competition, Wealand says, "because our line is very broad and there aren't a lot of technological barriers to entry."



PHOTO: CHARLES W. KRYPSO—BLACK STAR

At Cramer Products, *Tom Rogge's task was to recapture a strong identity.*

Blue Chippers

Many of the companies featured in this cover package were honored earlier this year as Blue Chip Enterprises in the annual competition that *Nation's Business* sponsors in cooperation with Connecticut Mutual Life Insurance Co. and the U.S. Chamber of Commerce. Each year, the Blue Chip Enterprise Initiative recognizes companies that have weathered adversity of some kind and emerged stronger—many of them, as this article illustrates, by using the threat of failure as a self-defining experience.

For information on how your company can apply for a Blue Chip Enterprise award in the current competition, call 1-800-FOR-BCEI (1-800-367-2234). The deadline for applications for the 1996 awards is Oct. 13.

Judy Creiner puts it this way: "There are problems every day." Her first big problems—the loss of her biggest client and of her key employees—"were two landmark ones, but there's not a day that goes by that something isn't thrown your way that you've got to respond to."

If you're in small business, there's really no safe haven. There's no permanent escape from the threat of failure, which can be an entrepreneur's constant companion for long stretches of a business's life.

William L. Sage, who owns Assembled Products Corp., in Rogers, Ark., knows this well. It was his grandmother who stimulated his interest in making an electric shopping cart that one person could ride; she hated to be left behind when the family went to the grocery store, but she couldn't get around on her own.

After working with his father and brother in a family business in California, Sage decided to go into business for himself in Arkansas, making such carts.

For a long time, he didn't have it easy. He started the business in a garage in 1983. Finally, by 1987, "we had some dealers doing real well," Sage recalls, and he bought his own building. But then two of his biggest dealers filed for bankruptcy. A large competitor had entered the field, too, offering prices Sage could not match.

With money short, "we had to work with our customers real close," Sage says, "because we had to stretch out deliveries." Customers who wanted their carts within weeks had to wait months for them instead.

To make matters worse, Sage came down with mercury poisoning from the fillings in his teeth, which robbed him of energy.

Despite all those troubles, "I never thought failure was going to be a possibility," Sage says. "I knew where we were going. I just had a real strong sense of knowing where to go and how to get there."

Today, Assembled Products has more than 50 employees and sells thousands of carts annually to retail chains like Wal-Mart.

For entrepreneurs, the risk of failure can look pretty small when measured against the rewards—the intangible rewards perhaps most of all. Having been to the brink with Architecture One, John Riggs now can savor his ties to the company he revitalized. In his nearly 25 years with the firm, Riggs says, "I think there have been fewer than 10 days when I got up in the morning and really didn't want to come to work. If I didn't like what I do, it would have been very easy to throw in the towel and go do something else. I really do enjoy it." NB

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Nation's Business
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SERVICES

Benefiting From Banking Changes

Major trends in the industry are causing big banks to develop a new appreciation for the small-business market.

By David R. Evanson

ENTERPRISE 2000

Even though Jim Smith's product line is low-tech, his company is on the leading edge of trends that are shaping small-business banking.

Smith's company, Triex Group International Inc., in San Leandro, Calif., specializes in nonelectric lighting products. The firm can suspend photoluminescent crystals in almost any medium to create safety and consumer products that "turn on" when the lights go out. For example, the stairwells in the twin towers of New York City's World Trade Center are now coated with Triex photoluminescent paint. In February 1993, a terrorist bomb attack destroyed backup electrical systems, forcing thousands of people to evacuate the buildings in pitch darkness.

Smith has built his business to $2.2 million a year in sales, and along the way he has secured more than $400,000 in loans and lines of credit from his bank, Wells Fargo. The bank "has gone out of its way for us," says Smith, who adds that he is puzzled by the amount of personal attention he receives. Wells Fargo, he quips, spends "more on coffee each day than they earn on Triex in a year."

Just what does a $52 billion banking behemoth like San Francisco-based Wells Fargo hope to gain from a start-up like Triex? Apparently, like other money-center and larger regional banks across the nation, Wells Fargo hopes to gain considerable business from the Triexes of the world.

A host of changes occurring in the financial-services sector has put small business in banking's catbird seat, and if current trends continue, it will remain there well into the next century.

This is not to suggest that all banks have ignored small business in the past. Smaller regional and community banks have traditionally served small firms' banking needs, says Robert Berney, chief economic adviser in the Office of Advocacy at the U.S. Small Business Administration in Washington, D.C.

But unlike larger banks, "the smaller banks have traditionally made a lot of loans based on character and personal relationships," he says. So-called relationship banking does not generate the volume of lending that small businesses need, however, and "although small business provides 50 percent of the revenue" of the nation's gross domestic product, Berney says, "they only get 10 percent of the verifiable credit."

The good news is that many larger banks are now developing a new appreciation for the small-business market, and the reasons lie in a number of underlying trends. They include:



PHOTO: ROBERT HOLMGREN

Triex Inc.'s president, *Jim Smith, displays his California firm's photoluminescent signs for Terri Dial, an executive vice president of Wells Fargo Bank, which he says has accorded his company a great deal of personal attention—and financial help.*

Major Market Shifts

As they search for ways to increase their revenues, most larger banks are seeing small business as the last wide-open market, says Terri Dial, an executive vice president with Wells Fargo and the executive ultimately in charge of Triex's account. In fact, small business is about the only business-loan game in town. Many large and middle-market companies now simply bypass banks altogether and borrow money elsewhere.

Competitive pressures in the arena of large and medium-sized companies have been exacerbated by the encroachment of nonbank lenders, says Robin Wantland, manager of Bank One's Texas business banking. "Leasing companies, commercial-credit companies, and even investment-banking companies have attached themselves to the middle market and corporate customers that were traditionally served by banks," says Wantland, who is also chairman of the American Bankers Association's small-business committee.

Spread Of Information

Before large banks could rev up their small-business lending, they had to figure

This story is part of a continuing series on managing at the turn of the century.

out how to make it profitable. "It wasn't just a matter of offering scaled-down versions of our corporate products," says Dabney Smith, a small-business loan executive with NationsBank, the nation's third-largest bank, based in Charlotte, N.C. "We had to offer the right products, and we had to figure out a way to do it cost-effectively."

Cost is a huge issue. Historically, many larger banks avoided the small-business market because small loans didn't justify the expenses connected with doing complete credit analyses, disbursing funds, and regular monitoring. It just wasn't attractive to distribute these costs over a $500,000 loan—not when, for the same effort, they could be distributed over a $5 million loan.

"Information technology," says Wells Fargo's Dial, "is changing all of that and helping banks drive down costs in three critical areas: loan acquisition, risk management, and loan servicing." Dial remembers when banks kept track of loan information with big mainframe computers, and access to data was slow and difficult. "Today it's a different story," she says. "Data can be stored on a [network] file server, and all of a sudden it's available to product managers, risk managers, marketing managers, customer-service managers, and loan officers."

All this information means that banks can change the ways they do business so that it becomes profitable to make small loans. The key, say Dial and Wantland, is that banks can make credit decisions based on probability and statistics—often referred to as credit scoring or actuarial-based lending—rather than relying solely on traditional credit analyses.

But it's not just in the area of credit analysis that costs have come down. "We can mine our own customer database as well as other businesses in the public domain to inexpensively target small-business customers," says Bank One's Wantland. "And once these businesses are on board, we can monitor them with less resources."

So rather than the expensive, relationship-oriented model that banks traditionally have used to make sure loans were in good shape, today's efforts are more faceless. Says Wantland: "As long as they keep their credit clean, they won't ever have to hear from us."

Increased Competition

All of this is not lost on the officers of small banks, generally those with assets under $100 million. Within this market, it's difficult to say which lenders have it tougher—urban and suburban institutions, or those in small communities and remote locales.



PHOTO: STEPHEN CHELAND—BLACK STAR

Big-bank competition *hasn't hit Rhonda Wills' Oregon bank, she says, "but I can see it coming."*

According to Bank One's Wantland, small banks in densely populated areas face the prospects of acquisition in addition to competition in their traditional markets. But for smaller banks in rural areas, for now, there is largely just one prospect—competition.

Rhonda Wills, senior vice president of the Bank of Astoria, in Astoria, Ore., is preparing for the inevitable. The town got its name from John Jacob Astor, the famous financier who funded fur expeditions in the area. Today, Astoria is a stately rural community nestled on the banks of the Columbia River, which forms the border with Washington state. The town's economy is built not only on government, timber, and fishing but also on a bustling tourist trade. The Bank of Astoria has done a lot of business lending to small inns and hotels.

Says Wills concerning the trends in banking: "Competition from large institutions hasn't affected us yet, but I can see it coming."

What Wills sees are larger, out-of-state institutions advertising business loans by phone, which she fears will lure away her best small-business customers. "My father and people of his generation were used to coming into a bank and dealing with people face to face," says Wills, who also serves on the American Bankers Association's small-business committee. "But the up-and-comers, they are comfortable with phones, and ATMs, and computers, and they are happy not to bother coming into the bank."

While competition from outside remains only a prospect, it already has prompted the Bank of Astoria to lower interest rates and lengthen terms on business loans.

Although wide-scale competition may appear ominous to Wills, at least for the near term, it may also point to some pluses for small banks as well as small borrowers.

Michael ter Maat, a senior economist with the American Bankers Association, says "the same information technologies which are helping larger institutions drive down the costs associated with analyzing, monitoring, and packaging loans will soon be available to smaller banks as well. As we see it, the overall volume of lending among large and small institutions is going to increase."

Ter Maat is quick to note that the recent wave of bank mergers adds even more momentum to the small-business lending market.

"Since loans in this market are smaller, volume and efficiency are key," he says. "Institutions with lots of assets and efficient systems of distributing and monitoring loans will be looking for more customers to loan to. For small businesses, consolidation is a real opportunity."

Loan Recycling

Technology's role in shaping the small-business lending market has a flip side that virtually ensures that the present enthusiasm for that market is more than a fad. Wells Fargo's Dial explains that automation of the lending process has created a certain level of homogeneity within banks' small-business loan portfolios. As a result, she says, banks will be able to package and sell their small-business loans in the same way

that automobile loans and mortgages have been sold for years.

"When banks can make small-business loans, sell the loans, and get their funds back to make even more loans," says Dial, "it ultimately means the pool of capital for small business has been considerably enlarged."

Investors from Dublin to Dubuque will be funding the smaller, stable companies that form the bedrock of the American economy.

This recycling of small-business loans is just starting to appear on the horizon, says Bank One's Wantland. "It takes a while to season a portfolio," he says. "There needs to be a large-enough volume of loans on the books, and the banks, as well as Wall Street, which will 'securitize' these debts before they are sold to investors, need to get a better sense of the prepayment and default rates so they may be accurately priced." Nonetheless, he says, "banks that have been in the small-business market for a while are perhaps two years away from being able to resell their portfolios."

The power of this link to the capital markets cannot be underestimated. Suddenly, investors from Dublin to Dubuque will be funding not just emerging enterprises but also the smaller, stable companies that form the bedrock of the American economy.

Although the ground may be shifting beneath banks and small-business borrowers, with more than 10,000 banks across the country, it's still possible that a company trying to get a business loan from a bank will get instead more talk than action.

Wantland urges business borrowers to be simultaneously selective and aggressive in their search for bank loans. "Ask the bank if it has a department for dealing with companies of your size and specializes in small-business products," he advises. If not, think about taking your business elsewhere. "If you find a bank where they have people and product on the ground," says Wantland, "there's a good chance their commitment to small business is more than just talk." NB

To order a reprint of this story, see Page 70. For a fax copy, see Page 59.

David R. Evanson is a financial-communications consultant and writer in Ardmore, Pa.

Banking Reform In Jeopardy

In January, banking reforms that would accelerate the pace of change under way in the industry ranked high on Republicans' legislative agenda. The Depression Era Glass-Steagall Act, which prevents banks from owning investment companies and vice versa, appeared destined for the scrap heap. And banking interests looked forward to quick passage of a "regulatory relief" bill.

But as Congress departed for its August recess, banking reform was in jeopardy of falling victim to the long-standing rivalry between banks and insurance agents over whether banks should be allowed to sell insurance. Prospects for reform diminished despite Clinton administration support for reforms and attempts by GOP House leaders to broker a compromise.

The reform effort got off to a bipartisan start in May when the House Banking Committee approved 38-6 a bill to overhaul Glass-Steagall. The measure would let banks underwrite and sell all types of securities.

Meanwhile, a separate regulatory-relief bill moved through the House Commerce Committee. It would lighten the regulatory burden placed on banks by three laws: the Community Reinvestment Act, the Real Estate Settlement Procedures Act, and the Truth in Lending Act.

The Commerce Committee bill also contained a provision, pushed by the insurance industry, that would give states authority to determine permissible insurance activities for banks. The effect would be to remove that authority from the Comptroller of the Currency, a Treasury Department official who has interpreted existing laws to allow some banks to sell insurance. The banking lobby opposes the provision.

House GOP leaders brokered a deal to merge both bills into one, hoping the banking industry would accept new limits on its ability to sell insurance in exchange for reform of the Glass-Steagall Act. But the deal collapsed in July when the House Banking Committee voted to let banks affiliate with insurance companies, setting off a firestorm of protest from the insurance lobby.

Without a quick compromise on the insurance issue, both banking-reform bills appear to be dead for the year.

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MANAGING

Preventive Medicine

Encouraging all employees to participate in wellness programs can help curb a firm's costs for health care.

By Laura M. Litvan

As employers have sought to rein in health-care expenses in recent years, they have turned increasingly to wellness programs as a way to encourage their employees to lead healthier lives, but such moves have not always been easy.

According to a recent survey by Watson Wyatt Worldwide, a Washington, D.C., consulting firm, 61 percent of firms with fewer than 250 workers offer some type of health-promotion program. But experience has shown that to reduce health expenditures significantly, companies must target those workers who are most at risk of eventually needing expensive medical care. And these often are the very workers who are most resistant to health-promotion programs.

"One of the real problems [confronting] wellness programs is that the healthier employees are the ones more interested in getting involved," rather than those more apt to have health problems, says David Anderson, vice president of operations at StayWell Health Management Systems Inc., a St. Paul, Minn., firm that helps companies establish such programs.

One recent study, based on health data on employees of Chrysler Corp., examined the types of health risks more likely to result in larger health-claim costs. The study found that such costs were 31 percent higher for smokers than for nonsmokers, and employees with poor eating habits generated 41 percent higher health-claim costs than did those employees who had a healthful diet.

In addition, people whose weight was 20 percent or more above or below the desirable range for their stature had a higher level of inpatient hospital care than did persons with any other health risk. Their hospital utilization was 143 percent higher than people with a normal weight, according to the study, which was done by StayWell and by Milliman and Robertson Inc., a Seattle-based actuarial firm.

"Generally, there is a fairly significant reduction in health-care costs as people improve certain healthy behaviors," according to Stephen Brink, a consulting actuary with Milliman and Robertson.

Encouraging smokers, stressed-out workaholics, and overweight couch potatoes to participate in work-site health-promotion programs is hard, but it can be done with proper planning. Small companies that have wellness programs say one key to successful planning lies in surveying workers to identify health risks and the types of programs that appeal to all employees—both the already healthy and the not-so-healthy.

For example, at Alamco Inc., a 94-employee oil and gas producer in Clarksburg, W.Va., workers filled out a questionnaire in 1991 when the company adopted a wellness program, and they have been resurveyed several times since then. As a result of the information developed in the surveys, employees have been offered educational programs dealing with such topics as tobacco use, alcoholism, and stress management. The major focus this year is on disseminating dietary information. The company often uses payroll envelopes as a means of distributing pamphlets to workers.

Alamco also offers free blood-pressure and cholesterol screening twice a year, and the company will pay $10 a month toward any worker's health-club membership fee.

The company credits the program with helping to rein in its cost increases for health care over the past few years, which in turn has enabled Alamco to avoid placing any further health-cost burdens on employees. "Even though our health-care costs have gone up, we have not had to raise the employees' portion since 1991," says Bill Underwood, the company's personnel manager.



ILLUSTRATION BY DONALD HOLT KNIGHT/THE NEW YORK TIMES

In attempting to encourage more workers to participate in wellness programs, companies must be careful not to run afoul of provisions of the Americans with Disabilities Act, employment-law attorneys warn. They explain that a company could increase its liability under this anti-discrimination law if the firm in effect rewards or penalizes workers on the basis of characteristics that stem from a disability.

Among other things, chronic obesity is recognized as a disability under the law. Therefore, companies must note that some rewards—such as granting discounts on health-care premiums to workers who lose weight—are rife with potential pitfalls, says Edward Bergmann, a partner with the Chicago firm of Seyfarth, Shaw, Fairweather and Geraldson. "Such a bonus could discriminate against someone on the basis of a disability," he says.

Despite the popularity of wellness programs, health-promotion efforts had

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humble beginnings, says Kevin Hacke, executive director of the Association for Worksite Health Promotion, in Northbrook, Ill. "A lot of companies that started these programs 20 years ago started with employee involvement in a 'fun-run' or a 'walk-a-thon,' and then the chief executive said, 'Let's broaden this,' " Hacke says.

But in recent years, small companies have been moving forward aggressively to curb the "demand" side of health-care expenditures. So-called demand management focuses on efforts to get employees to curb their need for health care, in contrast with employer efforts to curtail the supply of care through approaches such as managed care.

"Supply-side management isn't the answer," says Don Powell, president of the American Institute for Preventive Medicine, in Farmington Hills, Mich. "We have to incorporate other things, and that's where demand-focused approaches come in."

Putting more health-related information in the hands of employees, as Alamco is doing, is one way to curb demand for health services. A study released in June by William M. Mercer Inc., a New York-based consulting firm, highlighted the potential impact of such "self-care" wellness approaches.

Under self-care, workers are taught

A Get-Tough Approach Can Pose Pitfalls

When employers try to encourage less-healthy workers to change their habits, sometimes they go beyond offering voluntary wellness programs. In fact, some employers have taken a decidedly get-tough approach to employees who smoke, drive drunk, or make other behavioral choices during their off-hours that could run up health-care costs.

Take the case of E.A. Miller Inc., a 1,300-employee meat-packing plant in Hyrum, Utah. If a worker there is injured in an accident caused by his own drunken driving, his company-sponsored medical insurance won't cover treatment costs. If a pregnant employee wants the child's delivery covered by insurance, she must attend a brief series of well-baby classes provided by the company beforehand. Workers who smoke or chew tobacco pay twice as much as other employees toward their monthly health-care premiums.

"Only when people are held accountable for their behavior will we achieve meaningful results," says Eric Falk, the company's human-resources director.

Falk says the company's policies were adopted after several premature deliveries swallowed up about 20 percent of the company's health-care expenditures in 1989 and 1990. Premature births are sometimes caused by preventable behaviors, such as drinking or smoking during pregnancy.

Because the company is self-insured, meaning it pays medical claims out of its own funds, managers decided they had to reinforce strongly the need for employees to prevent disease and major injuries. Self-funded plans have far more flexibility than traditional plans to make their own rules because federal law exempts them from state insurance regulations.

Miller has seen its health-care costs drop by about $20 per employee per month over the past three years, and Falk says he thinks the reason is that workers have changed their behaviors.

But while get-tough approaches might have an impact, they also can be controversial. In recent years, the New York-based American Civil Liberties Union has grown increasingly concerned about employers basing health-benefit decisions on what workers do during their off-hours. Working with the tobacco industry, the ACLU has successfully lobbied 28 states to adopt laws prohibiting companies from "discriminating" against smokers.

So far, smokers have been targeted more than any other group by employers to induce healthier worker habits, says Lewis Maltby, director of the ACLU's workplace-rights office. "The problem is that there's no reason to stop with smoking," he adds. "Everything affects health."

Meanwhile, employment-law attorneys note that there are legal risks with policies that penalize workers for certain behaviors that could pose health risks. For example, they say, companies that buy traditional health insurance are generally subject to state laws, and state "smoker's rights" laws prohibit treating smokers differently for health-insurance purposes.

Legal experts say that companies that self-insure probably don't have to be concerned with these laws because those companies are covered by the Employee Retirement Income Security Act of 1974, a federal law that pre-empts state statutes. But because federal law prohibits discrimination against people with disabilities, the experts note, there are nonetheless potential pitfalls.

"Employers who do these types of things need to be careful about treating people with different conditions differently," says Edward F. Shays, an attorney with the Philadelphia firm of Saul, Ewing, Remick and Saul.

Falk says he doesn't think E.A. Miller's approach is necessarily a good idea for every employer. And he says his company incurred some legal expenses after three employees filed lawsuits challenging its decisions to deny them health coverage. The company has never lost such a challenge to its policies.

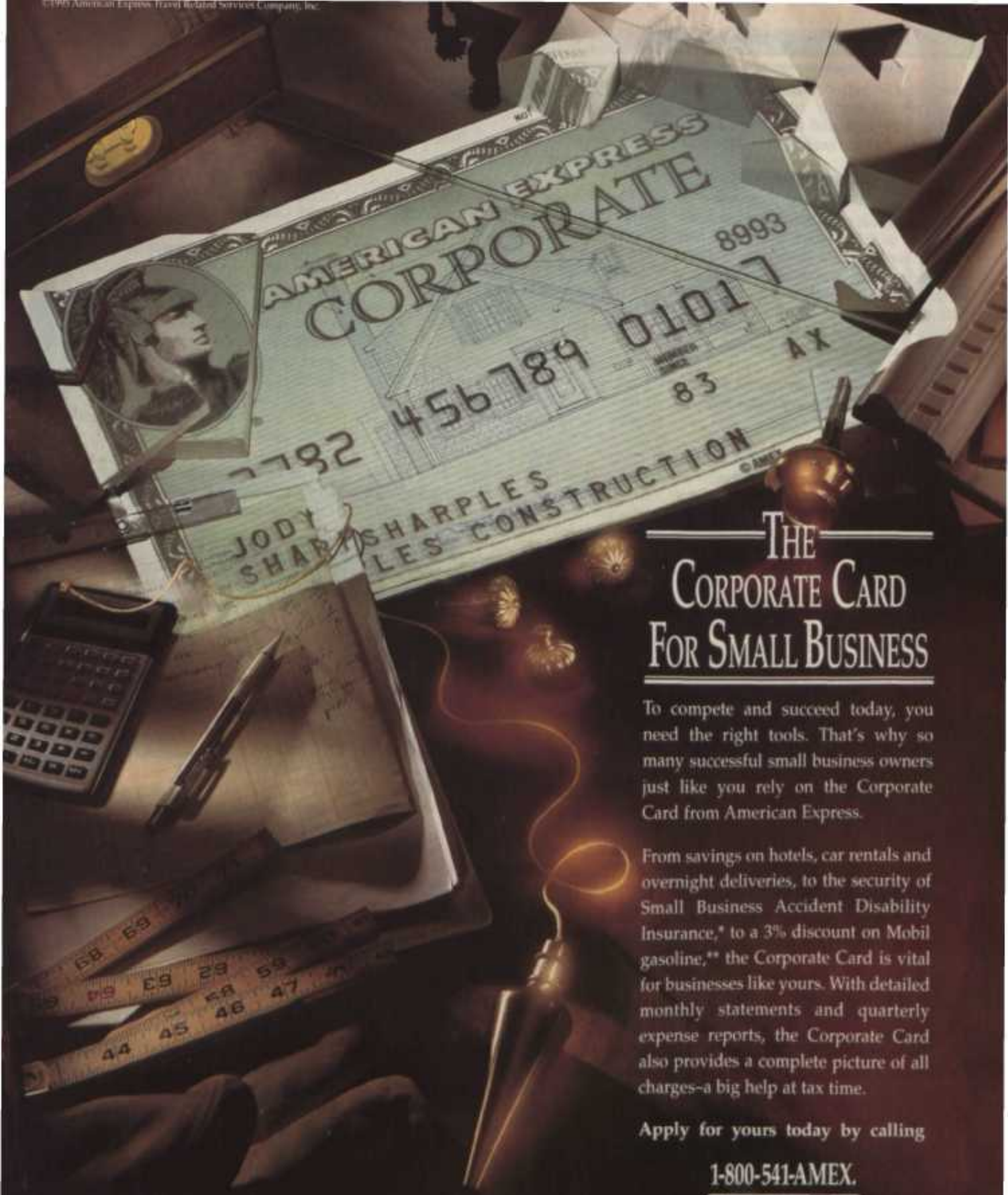
Another issue to consider is how workers feel about policies that might seem paternalistic. Workers do sometimes become resentful about policies that affect their lifestyles, say human-resources professionals. One E.A. Miller employee who attended mandatory well-baby classes last year, however, says she feels policies have become accepted among workers there. "We learned a lot about nutrition and smoking and drinking and what it can do to the baby," Carrie John, a payroll clerk and new mother, says of the classes. "I didn't have any problems with it."



PHOTO: © TIM KELLY—BLACK STAR

Before giving birth *to her daughter, Natalie, Carrie John attended well-baby classes required by her employer, E.A. Miller, of Hyrum, Utah.*

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how to make better judgments concerning when they truly need professional medical attention, and they learn how to take care of minor health problems themselves.

The study involved 72,000 public-school employees in Wisconsin; they were divided into groups that had varying levels of access to information that could help them make self-care decisions. Workers who were given resources—including a medical self-care book, a monthly newsletter, and a phone hot line staffed by nurses—generated far fewer health-care claims than workers who weren't given such resources.

The study showed savings of $4.75 in health-care costs for every dollar invested in the program.

Making certain that your wellness program helps to curb future demand for health care takes time and careful planning. Here are some ways to help ensure that your program includes elements that will reach all employees, no matter what their health conditions:

■ Form a team of employees to fashion your program, and have the team work on a survey of the services employees need and would use. Include a list of potential workshop topics—such as smoking cessation, stress management, and weight reduction—to gauge possible turnout. This can help you make sure each class is worth the expense of offering it.

■ Some of the least-costly approaches include informational inserts in payroll envelopes or mailings to employees' homes.

Moreover, these are effective ways to get information to workers who might not pay attention to notices posted at the office or sign up for information programs such as workshops.

■ You don't have to build a company gym to encourage physical activity. If there's a health club nearby, ask about negotiating a package discount for workers who might be willing to join. A good employee discount or an employer contribution to memberships might encourage more employees to work out regularly.

■ To keep employees involved, establish a system of inexpensive rewards for your program. For example, workers could earn company T-shirts by fulfilling a pledge to spend at least two hours a week jogging or engaging in a stress-reducing activity such as reading a book.

■ In your targeting of less-healthy employees, remember that old habits such as smoking die hard. One-on-one consultations with advisers or longer-running programs are sometimes more helpful to these employees than a workshop or two.

■ Take advantage of the abundant health-promotion information available to companies. Much of the material is obtainable free or at low cost. (For suggestions, see the list of resources above.)

Such resources can stretch your wellness dollars. At D.P. Hamacker and Associates Inc., a Milwaukee-based drugstore consulting firm, managers established a program that includes workshops, rewards for workers who exercise, and informational materials. The complete package costs less than $2,000 a year to run.

Susan Foley, a senior pricing analyst with the firm who helped develop the program, says free informational materials have helped to keep the wellness program's costs low. "I can't measure the overall benefits of our program in dollars," she says, "but some people have come up to me and said, 'Without your program I would never have started exercising.' "

For More Information

Here are some low-cost or free resources for health-promotion programs:

The Wellness Councils of America, a nonprofit group based in Omaha, Neb., sells memberships for $250 a year. Services include wellness consulting, access to local chapter meetings, and *Healthy, Wealthy and Wise,* a book that explains how to set up a program. Nonmembers can purchase the book for $95. Call (402) 572-3590.

Wellness in the Workplace: How to Plan, Implement and Evaluate a Wellness Program, a 90-page book, is available for $9.95 through Crisp Publications in Los Altos, Calif.; 1-800-442-7477.

The American Institute for Preventive Medicine, in Farmington Hills, Mich., sells low-cost health-promotion publications. One is the *HealthyLife Self-Care Guide,* designed to teach employees how to treat common illnesses and determine when they truly need medical help. It is $4.45 a copy, with quantity discounts for 10 or more copies. Call 1-800-345-2476.



ILLUSTRATION: GEORGIA LEIGH MCDONALD

Occupational Health Strategies Inc., a Madbury, N.H., consulting firm, offers a ready-made wellness program called "Healthy Achievers." For $495 a year, the firm provides a wellness-program manual and then a kit on a new health topic every two months. Call (603) 743-3838.

Healthier People Network Inc., an Atlanta-based nonprofit group, sells a $195 software program that allows a company to conduct health appraisals for employees to gauge their individual health risks, based on their answers to a lifestyle questionnaire. The fee also includes a prevention-oriented health newsletter. Call (404) 636-3127.

The National Wellness Institute offers referrals to wellness consultants and to vendors who offer books and audio tapes for corporate wellness programs. In addition, the institute holds a conference every July geared toward companies that want to establish or improve their own wellness programs. Contact the institute at 1045 Clark St., Suite 210, Stevens Point, Wis. 54481; the toll-free number is 1-800-243-8694.

The American Cancer Society is one of several national health organizations that offer health-promotion information to employers, particularly through local chapters. The organization provides pamphlets, videos, and guest workshop speakers at no charge. Contact your local chapter or call 1-800-227-2345 for more information.

The American Heart Association offers "Heart at Work," a program that includes ready-made kits of information for wellness workshops on seven topics. Price range from $200 to $600, depending on the number of kits ordered and the charges levied by local Heart Association chapters. Call 1-800-242-8721.

Many health-maintenance organizations (HMOs) and other managed-care providers offer member employers health-promotion materials.



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LEGISLATION

Giving Employees A Voice On The Job

Bills would amend a labor law that prohibits worker teams from advising on workplace matters.

By David Warner

When Universal Dynamics, a manufacturer of industrial machinery, faced a 30 percent increase in its health-insurance premiums five years ago, management asked its employees to resolve the crisis.

Subsequently, a committee of workers had a number of insurance companies pitch their health plans. The result: The committee found one insurer that was willing to maintain benefits at previous levels but would charge nearly $100,000 less in premiums than the incumbent carrier was planning to charge. "That committee is certainly one I'd like to use again on similar things," says Donald Rainville, president of the 230-employee company in Woodbridge, Va.

But he can't. That's because worker committees that cooperate with employers on matters such as benefits, compensation, or working conditions are illegal under the National Labor Relations Act of 1935, the federal labor statute. The law says it is an unfair labor practice if an employer interferes with or dominates the formation or administration of a labor organization. The statute defines a labor organization broadly as "any organization of any kind, or any agency or employee representation committee or plan, in which employees participate and which exists for the purpose, in whole or in part, of dealing with employers concerning grievances, labor disputes, wages, rates of pay, hours of employment, or conditions of work."

Rainville's firm disbanded the committee on health insurance and one that dealt with employee bonuses after a 1992 ruling on another company's worker committees by the National Labor Relations Board.

The NLRB, a five-member independent federal agency that administers the labor-relations act, ruled that several employee committees set up by Electromation Inc., an electrical-component manufacturer in Elkhart, Ind., were "employer-dominated" labor organizations.

Until that time, there had been few challenges to such committees. Since then, there has been uncertainty among employers about the legality of various employee-involvement programs. Indeed, seven companies have cases related to such programs pending before the NLRB. "It's a never-never land for an employer to start consulting with his or her employees in today's labor climate," says Ransom Ellis Jr., a Springfield, Mo., lawyer who has represented an employer in a dispute over employee committees.



PHOTO: BRIAN PETERS

Labor-law concerns *have eliminated some worker committees, says manufacturer Donald Rainville, left, conferring with employee team leaders Ed Luebkert, center, and Jim Backus.*

According to management experts such as Charles Manz, professor of management at Arizona State University, in Tempe, thousands of companies, including a growing number of small firms, have begun using employee-involvement programs to give their workers more input on day-to-day operations and to give employees a voice on issues such as compensation and workplace safety and health.

Moreover, companies that use these programs generally see positive results, Manz says, and so do employees. "Workers feel better about themselves, have a higher quality of work life, and the organization benefits," says Manz.

But many of those firms, says Washington labor attorney Hal Coxson, are probably in violation of the labor law. He is leading a coalition of companies and business associations supporting legislation to allow worker teams.

Identical bills, known as the Teamwork for Employees and Managers (TEAM) Act of 1995, are pending in the House and the Senate. Sponsored by Rep. Steve Gunderson, R-Wis., and Sen. Nancy Kassebaum, R-Kan., the measures would allow employee-involvement programs in nonunion firms as long as employers didn't seek to negotiate or enter into collective-bargaining agreements with their workers.

The House bill recently was approved by the Economic and Educational Opportunities Committee and is awaiting a floor vote. Action on the Senate measure is uncertain.

The legislation is opposed by organized labor, which says employee committees are being used by companies to prevent unions from organizing their workers. The Clinton administration also opposes the legislation even though its own Commission on the Future of Worker-Management Relations recently concluded that employee-involvement programs improve worker morale and productivity, product quality, and competitiveness.

"Your job affects your whole life, so you should have . . . input into what's happening on that job," says Chester D. "Mac" McCammon, an assembly worker and production team leader for Universal Dynamics. "It's really unfortunate" that the labor act prohibits employee involvement, he says, "because there are a lot of very smart, very intelligent employees out there on the shop floor."

Says Hal Coxson, the labor lawyer: "The time has long since passed when workers should be asked to check their brains at the plant door and not be involved in the decision making that affects them." NB



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LEGISLATION

Trading Places

Congress considers consolidating some trade agencies as it eyes dismantling the Commerce Department.

By James Worsham

The congressional Republicans' crusade to shut down a Cabinet department as part of their plan to shrink the federal government has taken an interesting and ironic turn.

While GOP leaders move to dismantle the venerable Department of Commerce, some Republican lawmakers are concerned about what would happen to the agency's role in promoting U.S. exports, regulating imports, and generally helping small businesses develop markets overseas.

One proposed solution is a new Cabinet-level trade agency.

"When we take a look at weeding out the chaff and cutting out unnecessary activities, we must be well-advised to keep those things which are working, to keep those things which are vitally important for ensuring the continued competitiveness of small and medium-sized firms in the world market," says Sen. Christopher S. "Kit" Bond, R-Mo., chairman of the Small Business Committee.

Under the Republican proposals to dismantle Commerce, most of the department's trade activities would go to other agencies, most prominently the Office of the U.S. Trade Representative (USTR), the government's principal trade negotiator. Some Commerce trade functions would be eliminated.

Bond isn't opposed to breaking up the multifaceted Commerce Department, but he wants to retain its two trade arms—the International Trade Administration and the Bureau of Export Administration—as a tiny Department of International Trade, at the Cabinet level.

Across Capitol Hill, Rep. John Mica, R-Fla., is suggesting a slightly different tack: consolidating the two Commerce agencies with USTR and the Trade and Development Agency, which helps U.S. firms find big-ticket capital projects overseas. He would call it the U.S. Office of Trade and give it USTR's seat at the cabinet table.

Meanwhile, Sen. Jesse Helms, R-N.C., chairman of the Senate Foreign Relations Committee, proposes creation of an undersecretary of state for export, trade, economics, and business, and he calls for a study of whether the major trade-promotion arms of the Agriculture and Commerce departments should be merged with the Foreign Service, which is part of the State Department.

The Bond and Mica measures are expected to be added to legislation to dismantle Commerce. Action on the Helms bill has been blocked by opponents on the Senate floor.

Congressional action on these proposals is to occur this fall as Congress seeks to translate its already-approved budget-reduction goals into actual legislation that would dismantle, eliminate, reduce, or slow the growth of large parts of the federal government to save $983 billion in projected spending over the next seven years.

The concern over the trade role voiced by some of those supporting consolidation comes as new trading rules under the General Agreement on Tariffs and Trade have stiffened competition for the United States in the rapidly growing global market, where small and medium-sized businesses are more often looking for increased sales and business expansion.

Supporters argue that consolidation would foster a more coherent trade policy, eliminate duplication, and reduce overall trade-related costs since such functions as trade assistance offered by several agencies could be consolidated in Washington and into a single set of field offices in the U.S. and overseas.

The fact that 19 federal departments and agencies have some trade authority reflects the hodgepodge way U.S. trade policy has developed over many years as various departments and agencies, as well as various congressional committees, sought to get into the act.

The agencies include the mammoth Agriculture Department, which spends more than $2 billion annually on export subsidies for raw commodities such as corn and wheat and on promotion of brand-name, table-ready foods made by major U.S. companies. Commerce, the traditional focal point for nonagricultural trade, regulates imports, licenses exports, and promotes U.S. business overseas.

Among other agencies that spend part of their time and money on trade are the Export-Import Bank, which provides loans to importers and exporters; the Overseas Private Investment Corp., which finances overseas projects, offers political-risk insurance and turns a profit; and the U.S. International Trade Commission, which decides how much a U.S. firm has been hurt by foreign competition.

None of the consolidation plans is sweeping enough to bring together all the government's trade functions—a feat unlikely to succeed now because of the desire not to build another large bureaucracy.

In fact, Sen. William V. Roth Jr., R-Del., has for years proposed turning Commerce into a trade department, but the idea has gone nowhere. Now he is chairman of the Senate Governmental Affairs

Who's Involved In Trade?

Amounts authorized in fiscal 1994 for trade activities in selected federal agencies. OPIC's trade-related revenues exceed expenditures, and its net income—$167 million—is not included in the total. Dollar amounts are in thousands.

Department of Agriculture	$2,152,512
Export-Import Bank*	981,595
International Trade Administration*	260,000
Department of State	92,640
Trade and Development Agency*	54,014
U.S. International Trade Commission*	44,000
Bureau of Export Administration*	35,000
U.S. Information Agency	28,618
U.S. Trade Representative*	21,150
Department of Transportation	16,000
Small Business Administration	8,385
Department of Energy	8,091
Department of the Treasury	2,000
Department of Labor	1,716
Overseas Private Investment Corp.*	(167,000)
TOTAL	**$3,705,771**

*Agency's entire budget is trade-related.

SOURCES: BUDGET OF THE U.S. GOVERNMENT, FISCAL 1994; VARIOUS AGENCIES

Committee, which is considering legislation on Commerce and trade agencies.

In an interview, Mica said he believes he will be able over time to win the support of other lawmakers to include more functions in a small Office of Trade. He said it should be viewed as a "nucleus to build a full department."

Mica concedes, however, that there is some resistance in Congress to trade consolidation. The mere fact that trade functions are spread across so many agencies means congressional oversight is widely dispersed among powerful committees in Congress, some of which may be reluctant to give up their jurisdiction.

For example, while the House Ways and Means and Senate Finance committees have primary jurisdiction over general U.S. trade policy, the Agriculture committees in both houses oversee the Agriculture Department's trade activities, and various committees in the House and the Senate oversee Commerce.

"There's a lot of jurisdiction lying around up here that makes consolidation difficult," says former Rep. Bill Frenzel, who was active on trade issues while in the House for 20 years before becoming a guest scholar in governmental studies at the Brookings Institution, in Washington.

Such widespread authority can sometimes lead to conflicts. In the past, the State Department, with geopolitical and diplomatic concerns, has at times been at odds with other departments that are interested in promoting U.S. exports.

A prime example of conflicting concerns is how various interests are at odds over the granting of most-favored-nation trading status to China. While business, for example, supports granting trade privileges to China that are similar to those the U.S. grants to most other nations, some other interests believe China should be penalized for human-rights violations.

Whether pulling all the federal government's trade functions together neatly in a trade department would have much of an impact on U.S. trade policy is uncertain.

Frenzel is skeptical of a widespread consolidation, arguing that it could actually hurt the 150-employee USTR, which has Cabinet status already, by weighing it down with the Commerce Department's trade functions. "You would put an anchor on USTR," he says.

Generally, Frenzel doesn't see much value in consolidating the trade functions, since most trade officials now work together and consult when the need arises. "I don't see that it's a big help to mush a lot of things together," he says.

However, Clayton K. Yeutter, a former U.S. trade representative and agriculture secretary, believes the United States must move to consolidate at least some of its trade authorities so the U.S. has a trade agency equal in clout to counterparts in other major trading nations.

"Other countries did this years ago, and their trade ministries function more smoothly since their trade functions are not scattered around," Yeutter says. Consolidation would not necessarily solve all of the nation's problems in international trade, he adds, but it would help "at the margins."

> **"Other countries did this years ago, and their trade ministries function more smoothly."**
>
> —Clayton K. Yeutter, Former U.S. Trade Envoy

The Clinton administration, meanwhile, not only opposes Commerce's dismantling but also insists that the department has become, in effect, a strong trade agency. The administration has made heavy use of the interdepartmental Trade Promotion Coordinating Committee, established by Congress in 1992 to harmonize all of government's trade-promotion activities; it is headed by the commerce secretary.

Willard Workman, vice president/international policy for the U.S. Chamber of Commerce, says the Chamber is taking no position on specific proposals to consolidate trade functions, at least for now, but he endorses the concept. "We think the idea has merit from the points of view of both budget savings and a more efficient delivery of services," he says.

Despite some opposition to creating a new Cabinet-level agency while GOP leaders in Congress are trying to reduce the federal bureaucracy, Mica plans to push ahead with trying to consolidate at least some of Uncle Sam's trade team.

Mica says some consolidation is needed so the agencies can more effectively help small firms in the global marketplace: "We're going to bring our trade policy and administration into the 21st century kicking and screaming, and the biggest beneficiary will be small and medium-sized businesses." NB

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FINANCE

Credit On Call

An established line of credit can be a godsend when your funds run low.

By J. Tol Broome Jr.

Todd Heim knows the value of a bank line of credit. He launched his business six years ago without one. He has used it occasionally since then. And now he plans to use it again, this time to help finance a move to larger quarters.

"I think every company should have a credit line at a bank," says Heim, owner of Future Cure Inc., a Westlake, Ohio, company that manufactures paint-spray booths for automotive body shops. "There's a big neon sign in every small-business owner's office that says 'Game Over' when the checking account gets to zero. You need a line of credit for those cash-flow shortfalls."

Heim used his line of credit in the beginning to purchase equipment. Since then he has used it to finance inventory and accounts receivable and to cover payroll and other expenses.

Future Cure hasn't used its credit line recently, but Heim says he plans to draw on it later this year when he moves the company. "The moving expenses alone will run about $30,000. And we also plan to use the line for part of the down payment on the purchase of the building."

If Heim sounds like an advertisement for the benefits of a line of credit, it's for good reason: He says his growing company couldn't have made it to this point without its line. Yet his experience isn't unusual. A line of credit is the most common type of "loan" that small businesses negotiate with their banks. Following are major aspects of this financing tool.



PHOTO: JIM STRATFORD—BLACK STAR

Shamrock Corp. *begins drawing on its line of credit in July to start making Christmas gift wrap, says Robert Worth, vice president of finance.*

Defining The Term

A line of credit, simply put, is a type of loan—with a preset ceiling—that a small business may draw upon as needed to fund various needs. It differs from a regular loan in both duration and repayment structure. A typical line of credit is for one year, meaning the amount borrowed must be repaid within that time. In contrast, a standard bank loan to finance fixed-asset purchases has a repayment schedule of 10 to 15 years for real estate and five to 10 years for equipment. Repayment of a standard loan also requires a fixed monthly amount.

There are a number of different types of lines of credit: short-term lines, import lines, contractor lines, revolving lines, asset-based lines, and factoring lines. But they all fall into two basic categories—lines to finance seasonal needs and lines to fund long-term growth.

Seasonal Lines

Line-of-credit financing is most commonly used to fund seasonal purchases. For instance, most retailers use a line to finance the temporary but sizable buildup of inventory that takes place each year before the Christmas season. And most businesses that manufacture goods tied to the holiday season must do the same.

"We could not operate our business without an operating line," says Robert Worth, vice president of finance with Shamrock Corp., a Greensboro, N.C., firm that makes gift wrap, gift bags, and other Christmas accessories.

Worth says Shamrock begins using its line in mid-July to purchase raw materials and meet payroll. The line balance increases steadily for the next several months, reaching a peak in early November. Then, as Christmas-related revenues start flowing in, the line is rapidly reduced and is paid off by mid-December.

Most banks allow the use of a seasonal line of credit at the borrower's discretion; a standard requirement, however, is that the balance be paid to zero for at least 30 days during the year. Even though the business owner may use the line for discretionary needs, the uses should be seasonal or the company may have difficulty complying with the 30-day clean-up covenant.

If there is a balance outstanding at the time of the required 30-day cleanup period, then the line has probably been misused to fund large, fixed-asset purchases or even to fund losses. This could

J. Tol Broome Jr. is a loan administrator for FirstSouth Bank in Burlington, N.C.

cause problems with the bank when it comes time to renew the line of credit.

Long-Term Growth

Small businesses also frequently use lines of credit to fund sustained sales growth, says Mark Edwards, a commercial-loan officer with BB&T bank in Columbia, S.C. "Small businesses usually find themselves in need of cash when they are going through a period of rapid growth," he explains. "A line of credit often is the most effective way to finance a boom period."

A line to finance company growth, known as a long-term cyclical line, is set up a bit differently from a seasonal line. Although a line that helps with long-term cyclical expansion may come up for renewal each year, no 30-day cleanup period is required. A company experiencing rapid revenue growth would be unable to meet a zero-balance requirement.

The bank's control mechanism with a long-term cyclical line is the loan base report. It is completed by the small business to reflect current levels of the assets being financed—usually inventory, accounts receivable, or both. The report allows the bank to monitor whether the line balance is below the contracted coverage margins of 40 to 70 percent of the value of inventory and 50 to 80 percent of the value of accounts receivable.

"We require a line to be tied to the level of assets being financed," says Edwards. "If the line increases, we check the balance against the asset margins. Likewise, we must ensure that line-of-credit reductions are commensurate to corresponding asset-reduction levels."

Knowing how much to request for a long-term cyclical line can be difficult. Before going to the bank, you should prepare cash-flow budgets for anticipated sales growth and corresponding increases in accounts receivable, inventory, or both. The amount that cannot be financed internally by profits and accounts payable will require line-of-credit funding.

Advantages

A line of credit offers the small-business owner two key advantages—flexibility and time savings. Once a line is established, the owner can use it anytime it is deemed necessary as long as all the terms of the loan agreement have been met.

An advance from the line usually is but a telephone call away. The borrower has a line-of-credit advance deposited directly into the business's checking account for immediate use.

"I have an aversion to owing money," says Randy Daly, president of Rockville Printing and Graphics, in Rockville, Md. "But if I want to buy a piece of equipment on a whim, I can pay for it with funds from my line of credit. That way I can purchase the equipment when I need it and pay off the line when I want to."

Dom Scibilia, owner of One Hour Moto Photo in Maplewood, Minn., says: "I have used a line since the start-up of my business. I don't have to keep going back to the bank and filling out an application every time I need to borrow money."



PHOTO: ERIK STEINBERG—BLACK STAR

Paint-booth manufacturer *Todd Heim has used a line of credit to start and expand his business as well as finance inventory and cover payroll expenses.*

Costs Of Borrowing

Line-of-credit interest rates generally are tied to the bank's prime rate and can range from prime to prime plus three percentage points or more. With the current prime level of most banks at 8¾ percent, you could then expect an initial rate of at least 8¾ to 11¾ percent.

Many banks also charge fees for credit lines. Edwards of BB&T bank says that line fees typically are based on a percentage of the line amount, or of the outstanding balance drawn on the line, or of the unused portion of the line.

Requirements

If you own an established small business, here's what you should take to the bank when applying for a line of credit:

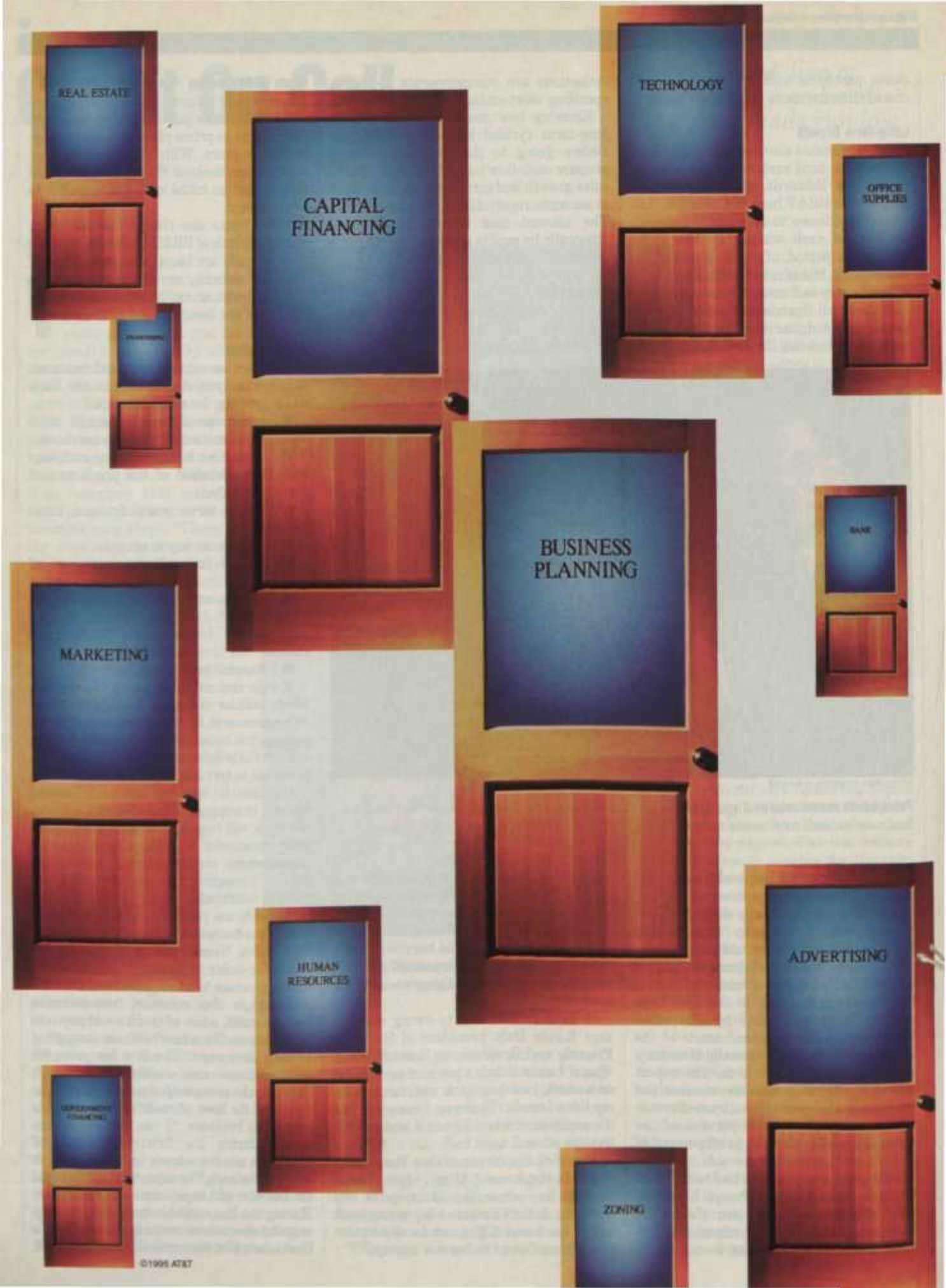
- An estimate of the line-of-credit need and an explanation of why you need one.
- A narrative history of your company and an explanation of the products and services offered.
- At least three years' financial information.
- Résumés on key managers.
- Personal financial statements on all owners.
- Business and personal credit references.
- Detailed business-asset listings and values.
- Financial projections.

If your venture is a start-up, the requirements will be different. Along with credit references and financial statements on all owners, you must submit your business plan and list the collateral available (business and personal) to be pledged for the loan.

Because a start-up has no financial history to support a line-of-credit request, the bank will base its decision primarily on your ideas, your financial projections, your management credibility, your personal financial strength, and the availability of outside collateral.

"I had to use personal assets as collateral to set up a line when I started my business," says Heim. "Banks are usually looking for dollar-for-dollar collateral coverage when lending money to a new business."

Although the collateral requirements may be strict, a line of credit could prove to be a lifesaver for a new business struggling to turn the corner. "The first few years for any business are usually tough," says Scibilia, who also pledged personal assets as collateral for lines of credit used to start his photo lab business. "I can remember one month during the first year or so of operation when we knew we were going to be tight for cash," he says. "So we went into the line of credit to pay our vendors on time. Having the line available enabled us to keep ongoing operations running smoothly at a time when that was critical." NB


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SMALL BUSINESS COMPUTING

The Perfect Presentation

Simpler graphics software can help a small company communicate professionally at surprisingly low cost.

By Joseph F. Schuler Jr.

A perfect presentation means different things to different people.

For most small-business owners, a perfect presentation is one that is prepared quickly, fits into a briefcase, and still has impact. That could mean wowing 100 people, winning a $400,000 bid, or simply keeping three vice presidents transfixed by overhead charts.

Time also is a major concern for small-business people. The deadline for a big presentation could be in a day, an hour, now.

At PES Environmental Inc., an environmental consulting firm in Novato, Calif., Geoff Laughton, the firm's operations manager, only had part of a workday to develop a graphic that might help colleagues win a contract from a big corporation. Laughton bought a mass-market graphics package called ClarisImpact at a software store and loaded the program into his Macintosh computer.

Although he had never used a drawing or presentation-graphics program, Laughton says, he prepared and printed the required chart "in probably an hour and a half, two hours."

The graphic wasn't elaborate, he says, but it complemented the company's overall presentation, most of which had been prepared by a PES artist too swamped to take on more work. "To be able to have a person like myself, ignorant about that type of package, be able to load it up and get anything out of it in half a day . . . is a miracle," Laughton says.

Potential users of the full-featured presentation packages typically need an artistic bent, a patient teacher, or both to master them. In part, that is because such software offers a dizzying array of output format options, including slide shows, full-motion video, animation effects, and more. Although these high-end presentation-graphics packages fit the bill for many businesses, simpler software often can do the job.

The program Laughton pulled off the shelf wasn't an all-inclusive presentation package. It was among the new breed of simple, "intuitive" business-graphics or diagramming programs that sacrifice some high-end features for ease of use and low cost.

This software, aimed at the small-business and home markets, employs sensible commands and clear interfaces. And it's "smart." For example, the software can deduce when you want a straight or a curved line as you draw it. Most of this software works in concert with familiar programs, such as Microsoft's Windows operating environment, and it requires less computer memory and disk space than the high-end packages.

Acceptance of this simpler presentation software has been astounding.

Shapeware Corp. pioneered the niche, debuting Visio in November 1992 and shipping 95,000 boxes the following year. In 1993, new products like CorelFlow, ClarisImpact, and ABC SnapGraphics boosted the category's unit sales to 329,000.

Although sales figures for 1994 have not been fully compiled, it is estimated that about 823,000 business-diagramming products flooded the market that year.

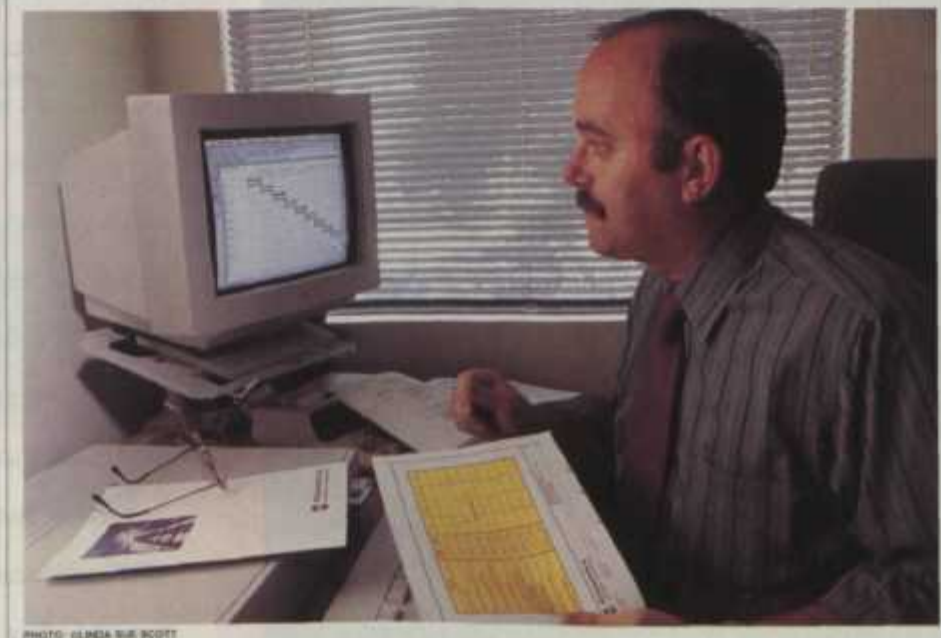


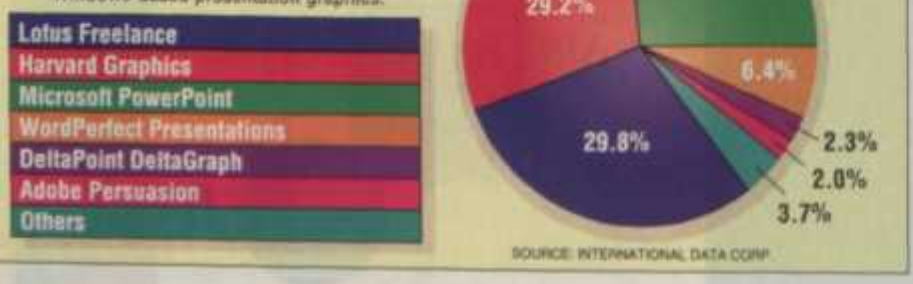
PHOTO: GLENDA SUE SCOTT

Environmental consultant *Geoff Laughton used business-graphics software to make a chart in only a couple of hours—"a miracle," he says.*

Joseph F. Schuler Jr. is a free-lance writer in Silver Spring, Md.

SALES LEADERS

These programs have captured the market for Windows-based presentation graphics:



SOURCE: INTERNATIONAL DATA CORP.

according to Joan-Carol Brigham, a senior analyst at International Data Corp. (IDC), a technology market research firm in Framingham, Mass. And many of those sales were to small-business users.

A larger business sometimes has a creative-services department that does presentations. "Someone puts something on a napkin and sends it to creative services, and an artist draws it, and it looks great," says Mel Badgett, graphics-products director of Claris Corp., in Santa Clara, Calif. A lot of products coming onto the market, Badgett says, make it easier for the small business to get the same results with less effort.

Three products in the business-graphics category are frequently mentioned by small-business users as being reasonably priced and requiring only a 20-minute learning curve.

And for a nongraphics person who could barely crayon within the lines as a child, these packages are fun, and that could make putting a chart together on deadline all the more palatable.

The products are ClarisImpact, Visio, and ABC SnapGraphics.

ClarisImpact ($149 suggested retail price), by Claris Corp., is available for both the Macintosh and Windows operating systems.

Visio ($199 retail), by Shapeware Corp. of Seattle, is a Windows-based program.

ABC SnapGraphics ($99 retail), by Micrografx Inc. of Richardson, Texas, also works under Windows.

All three packages work similarly: You call up a template, click the mouse, drag a shape/line/connector to your work area, size the shape, choose colors and fonts, repeat the process a few times, and you're practically done.

Both SnapGraphics and Visio have features that allow drawings to be inserted directly into presentations without tedious conversions, and you can edit the drawings once they are in place.

For art dummies, ClarisImpact seems particularly easy to use. It prompts users step by step through the creation of a slide show, providing a professional-looking menu of master styles from which to choose. (The same feature can be used to make overheads and 35 mm slides by transferring the files to a disk and taking the disk to a slide-processing company.)

ClarisImpact has a library of 2,400 templates for organization charts, flow charts, TQM charts, and other presentation-type graphics.

Visio has 22 stencils with more than 750 shapes. We built an organizational chart in minutes.

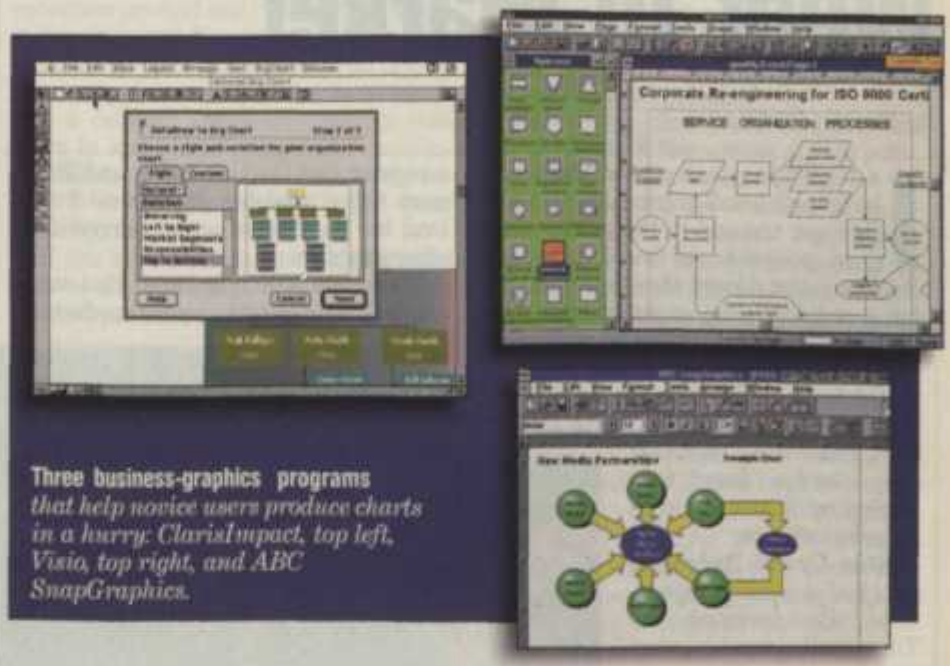
Although it is the least sophisticated of the three in appearance and quantity of graphics, SnapGraphics proves as useful as its more-expensive competitors. And it's just as automated. A user can walk through an on-line tutorial, for example, and then quickly build a pyramid chart. SnapGraphics offers step-by-step instructions in formats similar to those used in Windows.

Another feature worth mentioning is SnapGraphics' ability to generate complex symmetrical forms, which can be changed easily. For example, if you need to represent a company with five departments, you can draw a diagram with a few mouse clicks. If someone then says, "No, make it six," you simply select the number 6 from the menu, and SnapGraphics redraws the diagram.

For the small business, any of these programs could give a small company a competitive edge.

Amy Wohl, editor of *TrendsLetter*, a computer-industry newsletter published in Bala Cynwyd, Pa., has about two dozen presentation products installed on her Mac and PC hard drives. Still, she reminds small-business owners, "your job is not being a graphic artist. . . . Your job is being a marketing person, a salesman, being a vice president, whatever."

Graphics software, says Wohl, is a tool that can help you perform those roles more effectively. ■



Three business-graphics programs *that help novice users produce charts in a hurry: ClarisImpact, top left, Visio, top right, and ABC SnapGraphics.*

When To Call Up The Big Guns

When should a small business invest in and learn the complex ins and outs of a high-end presentation package rather than a simple business-graphics package? That is a competitive decision, suggests Amy Wohl of Bala Cynwyd, Pa., a computer-industry analyst and newsletter publisher.

If you feel such a program would give you a leg up in your market, buy it and learn it, she counsels. "I would say a more full-featured package is appropriate when you want to be able to be really creative."

High-end software gives you options such as voice-overs for slide shows and the ability to create video clips. You can even invoke attention-getting gimmicks such as a singing, dancing peanut, provided your package has an animation option. "The high-end products have better visual effects in them," Wohl says. "They're sort of glitzier. They are designed to be more multimedia in their approach" to presentations.

So, in choosing to go high-end, the bottom line is your business, the purpose of the presentation, and the competition.

Small-business users with big graphics needs can choose from about 20 presentation-graphics programs for the PC platform. Three top-selling packages—Microsoft PowerPoint, Lotus Freelance, and Harvard Graphics—have captured 83 percent of the Windows market, according to International Data Corp.

Other popular programs are WordPerfect's Presentations and DeltaPoint's DeltaGraph.

MARKETING

This Little Inventor Went To Market

Here are steps to consider in moving your idea from concept to customer.

By Marsha Bertrand

In 1989, Joan Gordon read about how birds and small mammals die when they get trapped in the plastic rings from six-packs of soda and beer. Being an animal lover, she started looking for a solution. She experimented with various materials and came up with a ring that breaks when a can or a bottle is pulled from it. That was the birth of the Freedom Ring. Although coming up with the idea was relatively easy, Gordon found that marketing it was an even bigger challenge.



Gene Cox of Richmond, Va., had a similar experience. He invented the Thumbnail, a machine that enables picture framers to rout out and connect frame corners quickly and easily. But while Cox loved the thrill of inventing, he had no interest in the marketing end of the business. "I can invent things, but I'm not a good organizer to take it to market," he says. "I'm a nuts-and-bolts guy."

Luckily, Cox found Ron Morgan, a product developer in Bellingham, Wash. Working together, they refined the prototype of the Thumbnail to make sure it was a workable product that solved a problem common to picture framers.

After they had the product, they decided to try to market it before they applied for a patent.

"People spend thousands of dollars applying for a patent, only to find out there's no market for their product or that it's too expensive to manufacture and market," says Cox. "Marketing is a much more difficult obstacle to overcome than getting a patent."

Although it may be too early to apply for your own patent, it's not too early to have a patent agent or patent attorney conduct a search to see if someone else already has a patent on your creation. A search is less costly and less time-consuming than an application. The names of patent agents and attorneys can be found in the phone book, in a registry that the U.S. Patent and Trademark Office publishes, by referral from a local bar association, or by referral from other inventors.

If a patent search discloses that someone took out a patent on your product but never produced it, it can be risky to develop your product. "The other person could sit back and watch you manufacture and market the product and make a lot of money, then file papers and take away what you earned because they had the patent on the product," says Cox.

It also can be risky to enlist the services of a company that offers to take your invention to market provided you pay in advance. "Anyone looking for money upfront in marketing an invention is a problem," says Don Moyer, a patent agent in Chicago who also offers free workshops for budding inventors.



PHOTO: T. MICHAEL KEZA

After inventing *a picture-framing tool—a corner router—Gene Cox enlisted the help of a marketing expert.*

Once you have determined that no one holds a patent for your product, it's time to get to work. The law says an inventor can sell a product for up to a year and still file for domestic patent protection. That gives the inventor a full year to test the product's market appeal before spending money on a patent.

If you don't have a patent, though, what are the chances of someone stealing your product? It's difficult to steal an unpatented product, but it happens.

Nonetheless, you can build your own safeguards. "Keep good records," says Moyer. "Make sure you can prove you are the inventor, and keep a log of the dates you worked on developing the product. Before you have a patent, the risk is the highest, so it's important to keep records that will stand up to close scrutiny."

To determine if the product will sell, of course, you have to manufacture it, and that can take a lot of money. Many banks are reluctant to finance start-ups on the ground that they are too speculative. So what about venture capitalists? That's what Michael Feygin tried.

Feygin invented the Laminated Object Manufacturing System, a rapid prototyping technology. Through the use of a computer and a laser beam, a two-dimen-

Marsha Bertrand is a free-lance writer in Hinsdale, Ill.

sional computer drawing of an object can be transformed into a three-dimensional object. When Feygin approached venture capitalists with his idea, they told him he wouldn't be credible until he had a patent. After he obtained the patent, the venture capitalists wanted to see a working prototype. He built one. Then they wanted him to sell a couple of machines before they'd back him. He sold two. Then they wanted to wait and see how the market developed.

Luckily for Feygin, he managed to obtain government grants to support his research, but during one period he even resorted to unemployment assistance so he could continue his work. He now owns a $10 million company that sells his invention. "Recently I talked to the venture-capitalist group," he says. "They're ready to take a minority interest. But I don't need them or want them at this point."

So if the banks and the venture capitalists aren't interested, where do you turn? You have to finance development and marketing yourself. Ron Morgan mortgaged his house and borrowed money from friends to finance the Thumbnail. Of course, you can raise only so much money yourself, so it's important to start small.

"The trick is to find someone who can help you figure out a process where you can make short runs of a salable product," says Moyer. "You don't want to have to spend $40,000 or $50,000 for molds, only to find out the product won't sell. Instead of a large injection-molding company, find a small machine shop that can help you out." You may find a machine shop willing to do the work for a share of future profits rather than conventional payment.

Once you have working machines in hand, you're ready to begin the marketing process. "The more specifically you can define your audience, the easier it is to break in," says Moyer. "If you have a consumer product and you're trying to get it into [a major discount retailer], you're barking up the wrong tree. With a consumer product, the best bet is to get it into a catalog. There are catalogs that cater to specialized groups like environmentalists, or purchasers of upscale products or low-end products. Target your audience through catalogs."

If you have a product that appeals not only to a broad range of consumers but also to a particular niche, pinpointing your marketing will be much easier. For instance, when Cox and Morgan marketed their second invention, the Quiet Saw—a very precise framing saw that runs quietly and can be easily used in a framing store—they started with a focus group. They invited 20 framers from the Richmond area on a Sunday afternoon, served them wine and cheese, and demonstrated the saw. The framers told them what they liked about the saw and what they found wrong with it.

If you do use a focus group, Cox and Morgan warn, don't invite anyone who might steal the idea; remember, you don't have a patent yet. And avoid inviting friends, because they'll tell you your invention is great no matter what.

In addition, if your product has an easily definable market, consider exhibiting at a trade show. For a few thousand dollars in booth-rental and travel expenses, you can reach a large segment of your target audience. And don't overlook trade journals and magazines—both to advertise the product and to get editorial coverage.

If at this point you're finding no interest in the product, it's probably time to walk away. "There's no sense in throwing good money after bad," says Morgan. "Once you know it isn't working, get your ego out of it and get out."

But if you find some interest and perhaps even a few orders at this point, it's probably time to start filing for the patent. "Applying for a patent is something you can do yourself," says Moyer, "but it's a very arcane procedure, and it's very easy to make big mistakes doing it yourself. It's best to use a patent agent or patent attorney."

And remember that possessing a patent is no guarantee that someone won't start manufacturing and selling your product. If that happens, the patent office won't fight it for you. You may still have to go to court to prove that you're the inventor. (Patent rights are granted for 20 years after the date of patent filing.) And even though your patent proves your claim, you may still have to pay attorneys' fees and court costs.

Once you've manufactured and sold your product, you may have another option. If you catch the eye of a major producer in the industry, that company may buy the rights to your invention outright or may offer you a licensing agreement. Under that arrangement, the company would manufacture and market your product and pay you a royalty for the life of the patent. Cox and Morgan had been selling the Thumbnail for over a year when Nielsen & Bainbridge, the world's biggest picture-framing company, in Cranbury, N.J., offered them a licensing agreement to develop and market it. They accepted and now collect royalties.

And what about Joan Gordon, the inventor of the Freedom Ring? She tried to land a corporate licensing agreement rather than attempt to manufacture the product herself. She contacted corporations and found one that was interested. The company offered her an agreement that spanned three years but then decided not to manufacture the Freedom Ring, and the licensing agreement was terminated. Gordon is now trying to interest other corporations.

Says Gene Cox: "If you have an invention, don't forsake your dreams. But go into it knowing the chances of success are not great. Remember, there's nothing wrong with playing poker as long as you don't bet more than you can afford to lose." NB



PHOTO: JOHN ZICH

Rather than manufacture *her invention, an animal-safe six-pack collar, Joan Gordon sought a licensing agreement; conferring with her is attorney Patrick D. Ertel.*

To order a reprint of this story, see Page 70.
For a fax copy, see Page 59.

LESSONS OF LEADERSHIP

More Plus Less Equals Results

The broad background of the U.S. Chamber's 1995-96 chairman helped his company; now it's benefiting the entire business community.

By Albert G. Holzinger

Dennis W. Sheehan's business career is noteworthy not only for its duration—35 years and counting—but also for the wide range of industries it has spanned. Ironically, it was a narrowing of the scope of operations that became the key element in the successful plan executed by Sheehan and several partners to secure the economic future of the industrial- and consumer-products manufacturing company he currently heads, AXIA Inc., of Oak Brook, Ill.

The firm that's now AXIA was founded in Harvey, Ill., in 1891 as a private partnership named Bliss & Laughlin Steel Co. The producer of cold-finished steel bars raised expansion capital in 1919 by selling shares to the public; 13 years later, it began listing its shares on the New York Stock Exchange.

For the next three decades, Bliss & Laughlin's managers and shareholders reveled in the sharp upturns and suffered through the precipitous downturns of the economically sensitive steel industry.

By 1962, the largely out-of-control roller-coaster ride led Bliss & Laughlin to buy companies in unrelated industries in an effort to stabilize financial performance. By the early 1980s, only about 500 U.S. companies were larger than Bliss & Laughlin and its many subsidiaries, which had nearly 16,000 stockholders and almost $400 million in annual revenues.

The diversification process was well under way in 1977 when Sheehan joined the company as vice president, general counsel, and secretary. Over the next several years, he and a handful of close associates became increasingly alarmed that the conglomerate was becoming unmanageable. The company had become "a hodgepodge, and the span of management from the top to the factory floor had become too great," Sheehan says. Moreover, he says, "Wall Street no longer was paying a premium for diversity, so management felt that stockholders were not being accorded proper value for their shares."



PHOTO: T. MICHAEL KEZA

Dennis W. Sheehan *displays a counter-top dish drainer that his company's Nestaway Division manufactures in Cleveland for Rubbermaid Inc.*

In the fall of 1984, Sheehan, nine colleagues, and three financial institutions—Merrill Lynch & Co. Inc., Northwestern Mutual Life Insurance Co., and what is now The Equitable Companies Inc.—instituted a leveraged buyout. Bliss & Laughlin stockholders were paid more per share than the highest price at which the stock had ever traded. Business units, including the steel mills, were sold. AXIA Inc. was born with Sheehan as chairman, president, and chief executive officer.

"I've never been surprised at the success we have had" since then, says Sheehan of the current three-division company. It has $100 million in annual sales and 1,300 employees, about 10 of whom work out of corporate headquarters in Oak Brook.

"I felt from the start that if we could survive for 18 months to two years . . . the question was not whether we were going to be successful in this venture but how successful we would be," Sheehan says.

At the heart of the now-very-successful venture is the four-plant Nestaway Division, America's largest independent producer of the racks and baskets used in household dishwashers. Cleveland-based Nestaway also custom-designs and fabricates other plastic-coated wire products, notably counter-top dish drainers for Rubbermaid Inc., of Wooster, Ohio.

AXIA's other entities are Ames Taping Tool Systems Co. and the Dave Fischbein Co.

Ames Taping Tool, headquartered in Duluth, Ga., with sales locations in about 60 U.S. cities, manufactures, rents, and services automatic taping tools and related products of its own design. The tools apply the compound and paper support tape, in one operation, that join panels of gypsum wallboard.

The Fischbein Co., based in Statesville, N.C., with operations in Europe and the Far East, manufactures sealing equipment used in industrial packaging. These devices employ gluing, heat sealing, and sewing to securely close bags, primarily

have a significant advantage over those tied down by convention, bureaucracy and big-spending.

FLEXIBILITY

The varied demands of today's marketplace require small businesses to perform an increasing variety of functions.



Whether it's in sales or finance, realty or retail, flexibility is the new key to long-term success. In these days of doing more with less, the way in which companies allocate resources has changed. In the past, financial clout often determined who came out on top. Today, faced with competitive and market pressures unimagined ten years ago, companies must now find

Flexibility and a sense of adventure must be a part of any company's corporate culture if it ceed into the 21st century.

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Large companies, of c a greater challenge than small bu generally have an easier time imple cies. But no matter what the size companies with an adaptable str outlook are better positioned to t than their competitors; their ab cus, or even redefine, their b sures their continued succe

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those used in the food, chemical, and agricultural industries.

There is little in Sheehan's résumé to suggest that he would be well-suited to run a midsize manufacturing concern. After earning a bachelor's degree with majors in political science and economics from the University of Maryland, in College Park, and two law degrees from Georgetown University, in Washington, D.C., Sheehan pursued a career in government. First he served as a legal assistant to the chairman of the National Labor Relations Board; then he was a trial attorney with the U.S. Securities and Exchange Commission.

Sheehan began work in the private sector in 1963, when he was hired by a newly formed manufacturer of electronics products, Bunker-Ramo Corp., of Oak Brook, Ill. In his 10 years as Bunker-Ramo's vice president, secretary, and general counsel, Sheehan was involved with the management of gee-whiz projects such as creation of a computerized airline-reservation system and the inception of the high-tech NASDAQ stock-trading system.



PHOTO: T. MICHAEL KEZA

U.S. Chamber Chairman *Dennis W. Sheehan, left, discusses proposals to reduce federal spending with Senate Budget Committee Chairman Pete V. Domenici, R-N.M.*

Sheehan moved into the metal-products industry in 1973, joining Diversified Industries Inc. as a director and executive vice president for administration, general counsel, and secretary. The company, based in St. Louis, turns industrial metal garbage into gold—and also into silver, platinum, and copper, depending on the original scrap metal's content.

From 1975 to 1977, when he joined AXIA, Sheehan was a director and vice president and general counsel of N-ReN Corp., a global manufacturer of chemical fertilizers based in Cincinnati.

Career diversity is among the factors that led directors of the U.S. Chamber of Commerce to tap Sheehan, 61, as the broad-based business organization's chairman for 1995-96.

In this capacity, Sheehan has traveled across America rallying business support behind elements of the Chamber's National Business Agenda, which closely resembles the House Republicans' Contract With America.

"We Americans know what qualities we need—as individuals and as a society—to handle the problems of the future," Sheehan says. Like the National Business Agenda, he adds, "the Contract With America is a thoughtful effort to institutionalize those qualities, to get the government back on an even keel, and to restore our traditional reliance on individual initiative and responsibility."

Nine of 10 elements of the pro-growth Contract have been approved by the House. The exception is a proposed limit on the duration of congressional service. Most Contract elements remain bogged down in the Senate, however, so their future is uncertain.

Sheehan and the Chamber also have been in the forefront of a related effort to balance the federal budget by the year 2002. The House and the Senate have approved a general blueprint for balancing the budget in this time frame without raising taxes, but both houses still must approve actual spending limits and details before Oct. 1, the start of the government's fiscal year 1996.

Sheehan says gaining this measure of fiscal responsibility is essential, although it will not be easy. "If the bond market perceives that government is not serious about stabilizing the national debt or is having trouble paying it off, then it's 'Katy bar the door' on high interest rates and inflation," he says.

He also has been campaigning with special vigor in support of efforts to reduce the paperwork and regulatory costs imposed on businesses by the federal government. Explains Sheehan: "We have two full-time tax accountants among our headquarters employees, and I'd be willing to bet that if we grew to $1 billion in revenues, we still would need only two. . . . So the cost for a small business is disproportionately high." NB

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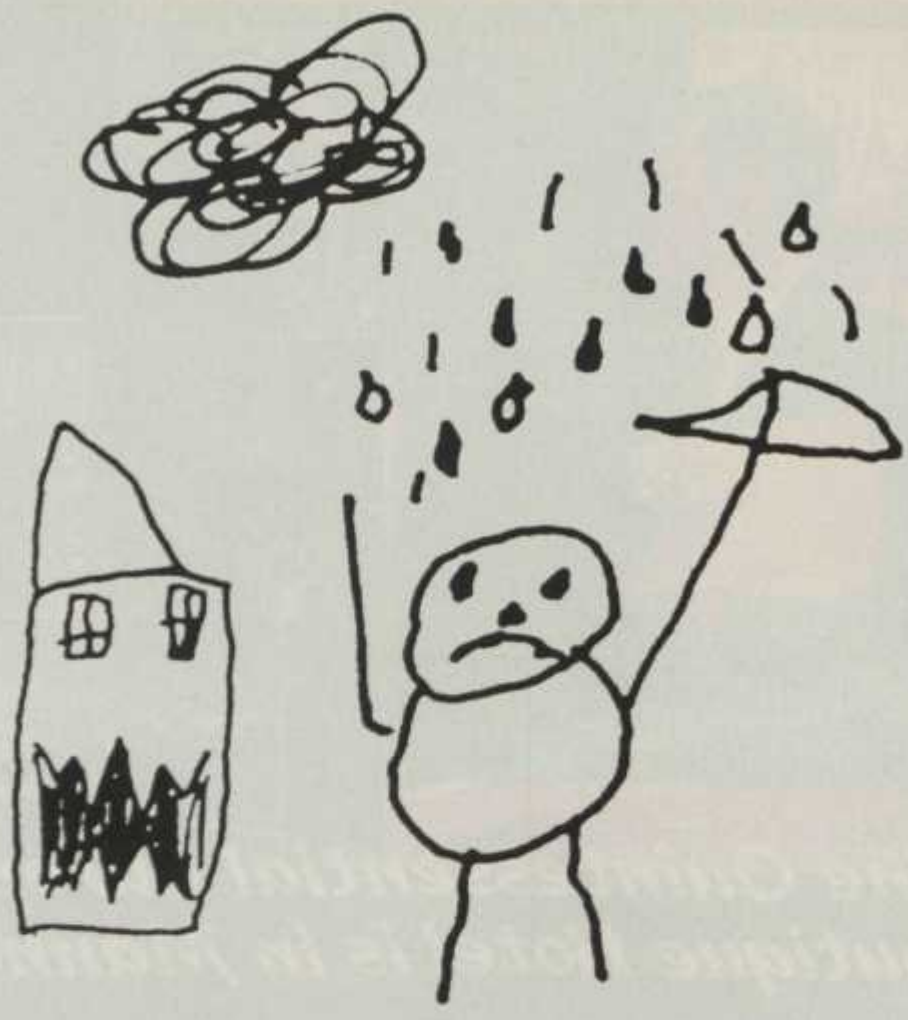
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SPECIAL REPORT ON COMPUTERS

High-Value Hardware

Change and competition mean more power and performance—and stable price tags.

By Jon Pepper

Like consumers who buy personal computers for home use, small-business owners today are demanding products that work right out of the box—systems requiring little or no installation of hardware or software. So PC makers, mindful that small firms typically have no computer professionals on staff, have become adept at configuring "plug-and-play" business computers.

Minimal installation is only part of the good news for prospective business buyers, however. The lightning-fast pace of technological change and the fierce competition among vendors mean that the same dollars budgeted a year ago for computer purchases now will buy a lot more power, more performance, or even more systems on which to operate a business.

"I'm currently using three PCs," says Steven J. Leon, president of Technopolis Communications Inc., a public-relations firm in Los Angeles. "I have two desktop systems with which I run my office and an IBM ThinkPad that I take on business trips."

Like many small-business owners, Leon works primarily as a one-person shop with occasional part-time help. The benefits of computer technology to his business have been incalculable, Leon says. "I would like to think that, because of the extent that I use computers, I am as productive as any five- or 10-person PR agency," he says. "I couldn't even begin to imagine running this business without the reliance on technology I have."

Finding the best computer value through comparison shopping still means investing some time. But the changes in the market also mean good choices abound. To help you in your selection, we've divided the computer market into several task-oriented areas:

- Basic business systems for small companies that need flexible general-purpose systems at an affordable price.
- Power publishing systems for businesses whose employees need uncompromised computer power for high-end tasks like desktop publishing, computer-aided design, and graphics processing.
- Mobile computers, notebook PCs, and printers that can do basic jobs in the office or on the road.
- Extras and peripherals that will help complete any of the systems in the preceding areas.

Basic Business Systems

Systems that can fulfill basic business needs ranging from accounting to word processing remain at the heart of the office computer market. Most vendors now offer such systems preloaded with the hardware and software required to complete those wide-ranging tasks efficiently. Most also include a fax/modem and related software that enable the systems to double as a voice- and data-communications center.

Today's general-use printers can deliver crisp copy and, in general, can handle the day-in, day-out presentation needs of most small businesses. Following are some of the best choices among PCs and printers.

AST Advantage! Adventure 8100p, AST Computer Inc., 1-800-876-4278: AST is among the companies manufacturing powerful business systems preconfigured with hardware and software. Near the top of AST's Advantage! line is the Adventure 8100p, which features a lightning-fast 100 megahertz (Mhz) Pentium processor; 16 megabytes (MB) of random-access memory (RAM) for effective running of Microsoft Corp.'s new Windows 95 operating system; high-speed graphics components; a 1-gigabyte (GB) hard drive for ample graphics and file storage; and first-rate multimedia equipment, such as a fast quad-speed CD-ROM (compact disc, read-only memory), a high-quality sound card for audio playback, and a microphone.

The Adventure 8100p also includes a fax/modem and related software for calls to a conventional phone, a cellular phone, or a pager. The modem/software combination also enables the computer to replace a conventional answering machine by converting incoming telephone messages into digital form and storing those messages in user mailboxes for playback later. Plus, AST ships the system



Computer technology *has brought incalculable benefits to his one-person public-relations firm, says Steven Leon, working from his Los Angeles home with his IBM ThinkPad.*

with a host of business and entertainment software programs. With a three-year warranty (including a year of on-site service), the system lists for $2,799. A monitor is not included.

IBM PC 700 Series, IBM Corp., 1-800-426-3333: IBM's 700 Series delivers solid business performance, and its flexible design affords plenty of upgrade opportunities. IBM also includes great utility software, an on-line help guide, and other programs that make it easy to get a PC 700 up and running. Numerous models are available, but our favorite mix of price and performance features is provided by the 120Mhz Pentium model, with 16MB of RAM, a 1GB hard drive, and a three-year warranty. It sells for about $4,100 without monitor.



IBM PC 700 Series

Epson ActionLaser 1600, Epson America, 1-800-289-3776: Epson's ActionLaser 1600 offers quality output in a workmanlike package. Based on a print engine by Minolta Corp., the ActionLaser provides crisp text and graphics output of 600 by 600 dots per inch (dpi), as well as features that further smooth image edges. Epson ships the product with internal software that emulates Hewlett-Packard's widely adopted PCL printing language, and it also offers optional PostScript Level 2 language-emulation software (commonly used for graphics-intensive printing) for $329. Our only quibble with the six-page-per-minute printer is its 150-sheet paper capacity, which is relatively small for an office laser. The optional 250-sheet paper feeder is $219. The Epson ActionLaser lists for $1,119.

Hewlett-Packard DeskJet 1600C, Hewlett-Packard Co., 1-800-752-0900: The H-P DeskJet 1600C is a fast, high-quality ink-jet performer. Black-only output speed is nine pages per minute, faster than many laser printers. Color documents print as fast as four pages per minute, and the 1600C has features that improve the output appearance of both color and black-and-white pages. New ink formulations help to make black text or graphics extremely rich and sharp, with a resolution of 600 by 600 dpi. And H-P's ColorSmart software analyzes the page to be printed and adjusts the printer automatically to provide the best possible output, regardless of the mix of text, photos, and line art. The extremely rugged 1600C can print up to about 12,000 pages a month, and it can handle everything from letterhead to card stock to envelopes. Estimated retail price: $1,399.

Kyocera FS-3600A, Kyocera Electronics Inc., 1-800-232-6797: Kyocera printers feature a unique cartridge-free design so users add toner powder instead of conventional toner cartridges. The company says the system cuts per-page costs to 0.7 cents, compared with about 2.1 cents per page for conventional lasers. Moreover, the FS-3600A can produce 18 pages a minute at 600-by-600-dpi resolution, is compact, weighs only 23 pounds, is compatible with major network operating systems via optional add-in cards, and boasts a rugged duty cycle of 50,000 pages per month. List price: $3,395.

Okidata OL810e, Okidata, 1-800-654-3282: Okidata has updated its popular printer line with the OL810e, a compact, 22-pound, eight-page-per-minute laser printer featuring 600-by-1200-dpi printing for detailed text and graphics. The OL810e includes 45 scalable typefaces, a 250-sheet paper tray, and a mechanism that accommodates an optional 500-sheet second paper tray. The printer is compatible with the H-P PCL printing language and is equipped with both serial and parallel ports. An added value is an auto-switching feature that senses which port is receiving data. This feature conveniently enables two computers to share the OL810e for maximum productivity. List price: $999.



Okidata OL810e

Power Publishing, Multimedia

General-purpose business computers simply don't provide enough data-processing horsepower for some users, particularly those who do desktop publishing and related prepress work, computer-aided design, or graphics or multimedia production.

Power users also need power printers—those that can churn out high-quality black-and-white or color documents at high speeds. Most power printers work well in either single-computer or network environments.

The following cutting-edge machines, which range in price from moderate to relatively expensive, can help the most demanding users get their jobs done quickly and efficiently.

Compaq ProLiant 1500, Compaq Computer Corp., 1-800-345-1518: Sometimes, small companies require more computer capacity than individual workstations can offer. In those cases, the Compaq ProLiant 1500, a departmental network file server, can provide power to spare.

The unit sports a fast 100Mhz Pentium processor, and a card that accommodates a second processor is available. It has built-in support for up to five fast (SCSI-2) hard-disk drives plus a CD-ROM drive. You can choose among Novell NetWare, Microsoft Windows NT, and other operating systems. Documentation is excellent, and Compaq includes a three-year warranty with on-site service. Prices are $15,000 and up, depending on system configuration.

Gateway P5-133XL, Gateway 2000, 1-800-846-2000: We've used many Gateway systems over the years and have always admired their blending of performance, value pricing, and technical support. The latest high-end entry is the P5-133XL, with a 133Mhz Pentium processor, 16MB of EDO memory (extended data out memory, a new memory technology that improves overall performance), a 1.6GB hard drive, and a 17-inch monitor using a high-quality Sony Trinitron picture tube. Other notable features include a quad-speed CD-ROM drive that accommodates up to three CDs simultaneously (you can switch among them by pushing a button).

Also included are a high-quality sound card and speakers for excellent multimedia support, as well as a high-speed 28.8 kbps (kilobits per second) fax/modem and related communications software. Base price for this fully loaded system is $4,399 direct from Gateway. The price includes toll-free technical support and a three-year warranty.

Zenith Data Systems Z-STATION GT, Zenith Data Systems, 1-800-533-0331: The new Z-STATION GT provides high performance and flexibility in a desktop configuration. All the Z-STATION GTs feature choices of high-speed graphics

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What Will You Do When Your Personal Assets Are Seized to Satisfy A Judgment Against Your Corporation?

All your many tax benefits of owning a corporation could be wiped out overnight. How? The I.R.S. could visit you and claim you have not kept proper corporate minutes. You could lose the very tax benefits to which the law entitles you.

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B.W.C., Inc. was forced to pay $106,358.61 of accumulated earnings tax because its corporate minutes were incomplete. They expressed "no specific, definite, or feasible plans" to justify accumulating earnings, according to the court.

Keeping records has always been a bother, and an expensive one, especially for small companies. Most entrepreneurs do not like to spend time keeping records. Probably because no one ever became rich by keeping records. And in a small, one-person business, it seems downright silly to keep records of stockholder meetings and board of directors meetings...keeping minutes...taking votes...adopting resolutions...isn't it all just a waste of time?

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A corporation does not exist except on paper, through its charter, by-laws, stock certificates, resolutions, etc. Anything you do as an officer or director has to be duly authorized and evidenced by a resolution of the stockholders or the board, or by both in some cases. It makes no difference if there is only one stockholder or one million stockholders. The rules are basically the same.

You can hire a lawyer, like the big companies do, and pay $100 or more just to prepare one form. But you may need, at minimum, a dozen or more documents to keep your corporation alive and functioning for just one year. This type of work is the bread and butter for many corporation lawyers. Most of the work can be done by their secretaries, yet they will charge you enormous sums because they know how important these forms are.

There is now a way for you to solve your corporate recordkeeping problems. Without a lawyer, without paying big fees, and without spending a lot of time. Virtually all the forms you will ever need are already compiled in **The Complete Book of Corporate Forms** by Ted Nicholas. Nicholas also created the highly popular computer diskettes for **The Complete Book of Corporate Forms**. These diskettes can save you hours of valuable time—and can save you literally thousands of tax dollars each year.

But forming a corporation is only the first step toward building "the ultimate tax shelter." Through carelessness or neglect, many people are denied their rightful benefits from owning their own corporation. Ted Nicholas saw that many business owners needed more help *after* they incorporated.

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controllers, big hard disks, and fast processors. We looked at the current top-end model, the Z-STATION GT with a 120Mhz Pentium processor, which comes preconfigured with 16MB of RAM, 2MB of video memory for fast graphics, a 1.2GB hard drive, and a quad-speed CD-ROM drive and high-quality sound card for excellent multimedia. Also standard are an Ethernet local area network interface and a software bundle that includes the Microsoft Office suite. The price is $4,562, including toll-free technical support and a three-year warranty.


Gateway P5-133XL

Apple Color LaserWriter 12/600 PS, Apple Computer Inc., 1-800-538-9696: Apple's first entry in the color laser printer sweepstakes is based on a new color laser print engine by Canon. Apple's printer delivers crisp color at respectable speed and has a superior system for replacing spent ink cartridges. The printer comes with a 500-sheet paper tray and enough memory to print color (three pages per minute) or black and white (12 pages) at 600-by-600-dpi resolution. Color pages can be slower if they contain complex graphics. Apple also includes some excellent software that can enhance output quality. List price is $6,989.

Lexmark Optra R, Lexmark International Inc., 1-800-891-0331: While most business laser printers deliver 600-by-600-dpi resolution, the Optra features 1,200-by-1,200-dpi output. Combined with superfine toner (so dots can be placed more precisely), the result is beautiful printing of text and graphics, with even the smallest text fonts sharp and well-defined and with gray-scale images almost photo-realistic.

The Optra is fast, too. The R model we reviewed prints 1,200-dpi images at eight pages per minute, and it prints 300- and 600-dpi images at 12 pages per minute. Paper handling is excellent. So is the software, which allows for neat tricks like condensing two or four pages of a document onto a single page for proofing or for saving space in a proposal. PostScript and PCL language support are standard. List price is $1,749.


Lexmark Optra R

Tektronix Phaser 340, Tektronix Inc., 1-800-835-6100: If you want quality color output, high speed, ease of use, and low cost per page, you should consider the Tektronix Phaser 340. This printer uses a unique printing process in which solid ink crayons are melted, sprayed onto paper, and immediately resolidified. The result is lavish color at high speed—four pages per minute regardless of complexity. Plus, you get up to 600-by-300-dpi resolution for as little as 11 cents a page. For impressive color business printing, desktop publishing, graphics, or other similar use, this is an appealing product. List price: $4,995.

Mobile Computing

Sales of portable computers show that computing on the go is getting more popular, not only among salespeople and field representatives but also among harried executives. Portable systems still cost more than comparable desktop computers, but portables now at least have all the accouterments of virtually any office PC.

Like notebook PCs, portable printers now also deliver outstanding quality. The only drawbacks are slightly higher ink costs and lower paper capacities.

Some excellent portable products are detailed below.



NEC Versa 2000 Series

Dell Latitude XPi P90T, Dell Computer Corp., 1-800-283-1450: The design of Dell's Latitude line is well-thought-out, the power and features are excellent, and the battery life is outstanding. The top-of-the-line Latitude XPi P90T features a fast 90Mhz Pentium processor, a high-quality (active-matrix) display that measures a generous 10.4 inches, 8MB of RAM, and a 340 MB removable hard drive that can be exchanged for a model of up to 1.2GB. Also standard are two PC Card slots (formerly referred to as PCMCIA slots) for devices such as modems and network adapters, a high-capacity lithium-ion battery, an excellent keyboard, and Dell's 30-day money-back guarantee. The price direct from Dell is $4,499.

Gateway Liberty DX4-100, Gateway 2000, 1-800-846-4320: While all subnotebook computers demand trade-offs for small size and light weight, few have been more accommodating than the Gateway Liberty. At just 4.2 pounds, the Liberty is sleek and easy to carry, yet it still includes a 10.4-inch color display.

The DX4-100 Best Buy model includes enough power to run almost any software program: a 100Mhz 486/DX4 processor, 24MB of RAM, a 720MB hard drive, a 14.4 kbps fax/modem, and an external floppy drive you can leave at home to lighten your load. Microsoft's Office software suite is pre-installed. Plus, Gateway thoughtfully includes both an extra battery and a leather carrying case.

The Liberty has proven reliable everywhere we've used it. The price direct from Gateway is $4,499 for the configuration above, with prices starting at $2,749 for a DX2-50 processor with 8MB of RAM and a 340MB hard drive.

IBM ThinkPad 701C; IBM Corp., 1-800-426-2968: The ThinkPad 701C is among the best-designed computers we've seen. Open the lid of the 4.5-pound subnotebook computer, and the two halves of the keyboard swivel up, presenting a full-size, 11.5-inch-wide keyboard atop a machine that itself is just 9.7 inches wide. This engineering achievement solves the tiny-keyboard problem that has long bedeviled users of portable computers. Plus, the ThinkPad comes with a 50Mhz or a 75Mhz 486/DX4 processor, a crisp 10.4-inch color display, up to 24MB of RAM, an integrated fax/modem, and high-quality audio built in.

IBM also pre-installs a huge software suite, including everything from a personal organizer to Taxi, a program for finding hotels and restaurants in major cities. Beyond the design wizardry, this is a fine machine with only one problem: Prices start at about $3,699 and reach $5,000-plus, depending on configuration. Still, if you want a really snug package that transforms into something much larger, the ThinkPad—nicknamed "The Butterfly"—is an impressive product.

Continued on Page 58

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Continued from Page 56

NEC Versa 2000 Series, NEC Technologies Inc., 1-800-632-4636: NEC designed the Versa 2000 series to meet business's need for a compact machine that provides performance and flexibility at a value price. The 6.3-pound Versa 2000s come in either of two levels of color-screen quality and feature high-capacity lithium-ion batteries for up to five hours of operation between recharges. Powered by a 75Mhz 486/DX4 processor, the Versas can accommodate up to 40MB of RAM and feature either 350MB or 540MB hard drives.

All models offer a comfortable keyboard with an unusual but effective touch pad that replaces a conventional mouse as a pointing device. One other plus: The Versa 2000C with the higher-quality display also comes with a fax/modem built in, so both of the PC Card slots are free for other devices. Prices range from approximately $1,999 for the less-expensive screen model (2000D) with 4MB of RAM and a 350MB hard drive to $2,799 for the high-end display 2000C with 8MB of RAM and a 540MB hard drive.

Toshiba Satellite Pro CDT, Toshiba America Information Systems, Inc., 1-800-334-3445: Mobile professionals have been reluctant to compromise their desktop-computing standards; with the Toshiba Satellite Pro CDT, there is little chance they'll have to. Powered by a 75Mhz Pentium processor with 8MB of fast memory, the system has an internal quad-speed CD-ROM drive that can be swapped with a floppy drive as needs dictate. Also standard are a 10.4-inch active matrix display, an advanced graphics accelerator, built-in audio, a built-in microphone, and an 810MB hard-disk drive.


Toshiba Satellite Pro CDT

The 7.3-pound system has a top-flight keyboard and an impressive array of preinstalled software, and it comes with a high-power lithium-ion battery that lasts more than two hours. The CDT is an excellent traveling companion for business people who need literally everything in their portable computers. The Satellite Pro CDT retails for about $4,900.

Canon BJC-70, Canon Computer Systems Inc., 1-800-848-4123: Canon's BJC-70 is a color ink-jet printer that works equally well in the office or on the road. Weighing just 3.1 pounds, this Lilliputian printer (11.8 by 6.2 by 2.2 inches) looks more like a high-tech stereo component than a document-output device.


Canon BJC-70

But despite appearances, the BJC-70 produces crisp black-and-white documents at up to four pages per minute and vibrant color documents at just under one page per minute. Print resolution is 720 by 360 dpi in black and 360 by 360 dpi in full color. The printer comes with an integrated 30-sheet feeder (it can also handle envelopes), and Canon's Color Advisor software, which helps suggest colors so you don't have to be a Picasso to get tasteful output. An optional battery provides 200 pages of printing without an AC outlet. Retail price is about $350.

Hewlett-Packard DeskJet 340, Hewlett-Packard Co., 1-800-752-0900: H-P's DeskJet 340 is the first mobile printer with infrared capability. This feature lets the user print to the 340 from a notebook PC with a comparable infrared port. No cable is needed. Infrared printing can take place from as far away as 3 feet. A $29 accessory is required to use the feature, however.

The 4.3-pound DeskJet 340 prints black at 600-by-300-dpi resolution as fast as three pages per minute, and it prints color at 300-by-300 dpi at about three minutes per page using the optional $39 color kit. The DeskJet 340 comes with an integrated 30-sheet feeder and a one-year warranty. Numerous options are available, including a battery, a worldwide rapid charger, and a 60-sheet desktop feeder. The base retail price is about $299.

Extras And Peripherals

Following are a few new products that could make your office or mobile computing more productive.

Hewlett-Packard ScanJet 3c, Hewlett-Packard Co., 1-800-722-6538: H-P has been a leader in the business scanning market for some time because of products like the ScanJet 3c—high in quality, easy to use, and priced well. The 3c can scan color or gray-scale photos, line art, or text with 600-by-600-dpi resolution.

Installation takes about 15 minutes, including putting the scanner interface card in the PC and installing the provided software. H-P includes software for scanner control, optical character recognition (using Calera Recognition System Inc.'s excellent WordScan software), and image editing (thanks to Corel Corp.'s Photopaint 5 program). Also included is software that turns the 3c into a color or black-and-white copier. The retail price is about $999.

Sony Multiscan 17sf, Sony Corp., 1-800-352-7669: Perhaps no component is more important to overall productivity than the monitor. A poor monitor can make working with a PC for sustained periods almost unbearable. Thus, to get the most from your PC investment, you'll need a monitor that is large enough to display lots of information and sufficiently high in quality to deliver sharp and true images.

We recommend 17-inch monitors for most business users, and the Sony Multiscan 17sf is one of the best we've evaluated. The renowned Sony Trinitron tube has a tight 0.25-mm dot pitch (the space between contiguous color dots on the screen) and a maximum resolution of 1,280 by 1,024 dpi for extra-detailed images. The Sony also features convenient controls, provides rich color, and has a somewhat smaller cabinet depth than most competitors—a plus in small offices. Retail price: about $899.

Kodak DC 40 Digital Camera, Eastman Kodak Co., 1-800-235-6325: Working in publishing means getting color images into your system for editing, for inclusion in documents, and for output either in-house or via a service bureau. In the past, this process entailed either scanning images or buying prescanned clip art. Now there's a new option: digital photography.

The Kodak DC 40 works like a conventional point-and-shoot camera but stores up to 48 high-resolution full-color images in its memory. A cable and software provided by Kodak allow you to quickly transfer those stored images to a PC or a Mac. The pictures then can be edited with image-editing software (also included) and exported into any document, printed in black and white or in color, or sent to a service bureau for high-

resolution output. There simply isn't an easier way to get photos into newsletters, brochures, business correspondence, or any other document. List price: $999.

U.S. Robotics Sportster 28.8 V.34 PC Card Faxmodem, U.S. Robotics Inc., 1-800-342-5877: Modems are getting smaller and faster. Reflecting this trend is the U.S. Robotics Sportster, a tiny PC Card fax/modem for portable computers with throughput up to 28.8 kbps. The extra speed—most PC Card fax/modems still can transmit and receive only at a maximum speed of 14.4 kbps—is a big plus when connecting to the Internet or commercial on-line services to transfer graphics or other large data files.

The Sportster features a new connector with four convenient LEDs (light-emitting diodes) that indicate power, on-line, send, and receive status. The card has been tested for compatibility with leading notebook computers and comes with data and fax communications software for both DOS and Windows. Easy to use and reliable, the approximately $370 Sportster is a good buy for mobile executives.



Hewlett-Packard ScanJet 3c

American Power Conversion Back-UPS Pro 280 Workstation Bundle, American Power Conversion, 1-800-800-4272: An uninterruptible power supply (UPS) keeps a computer working normally—and keeps its data secure—in the event of a power spike or outage.



American Power Conversion Uninterruptible Power Supplies

Among the UPSs of choice among local area network managers, for whom power integrity is essential, are those manufactured by American Power Conversion, in part because the company also makes terrific power-management software called Power Chute Pro. Now the company is bundling UPSs whose capacity is suitable for desktop computers with the Power Chute Pro software in a so-called Workstation Bundle. We've been using the 280 model—with four receptacles, a jack that affords surge protection to a modem, and a user-replaceable battery—with excellent results.

Microsoft's Windows 95 operating system recognized that this device was attached to our computer and prompted us to install the Power Chute Pro software. Once installed, the program provides diagnostic testing of the UPS, shuts down the computer automatically in the event of a prolonged power outage, and logs power problems to facilitate their correction. The Back-UPS Pro 280 includes a two-year warranty and a $25,000 insurance policy for equipment damaged by power problems. The list price is $239. NB

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Family Business

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OBSERVATIONS

The Agony Of Quitting The Family Firm

By Sharon Nelton



PHOTO: T. MICHAEL KEZA

Last year, Maureen resigned from her family's general contracting business, and Paul quit his family's plastics company. They feel they had no other choice.

Maureen and Paul (not their real names), both 35, gave many years to their companies—Maureen, eight, and Paul, 10. Their reasons for leaving were strikingly parallel: They felt they had no opportunity to advance or achieve in terms of making decisions or taking on responsibility. Both experienced conflict with the senior generation over the direction of the company.

Both desired to be owners of their families' businesses one day, and Maureen was the obvious successor to leadership. But Paul, whose company was bound up in a power struggle between his father and himself on one side and his aunt and uncle on the other, had no ownership. While Maureen held minority ownership on paper, she was expected by her father to treat her portion as his, abiding by his decisions.

Paul worked well with his father and faulted his grandfather for willing ownership of the business equally to the four children, leaving no one in control (one had left the business earlier but still was an owner). Paul's father was virtually forced out by the remaining siblings.

Unlike Paul, Maureen had difficulty working with her father. Although she had held an excellent corporate "management job before she joined the family firm, her father belittled her, telling her she didn't have the skills necessary to run the business. Her self-esteem plummeted.

Furthermore, the fact that her parents had not saved money outside the business for retirement and that they expected it to continue to support them in a luxurious lifestyle, even if she did take over, weighed heavily on her. "How am I ever going to support these people?" she recalls wondering. She began to consider suicide.

Maureen and Paul both felt that to save themselves, they had to leave. The unresolved conflicts and bitterness and the resulting departures have been agonizing not just for Maureen and Paul but for the entire families and businesses as well. Paul's family's firm has already been purchased by a competitor—at a price lower than the family might have realized had the members held together. Paul's aunt and uncle have suffered serious health problems, which Paul attributes to the stress of the conflict over the business.

Maureen has started her own business as a consultant. Of quitting the family firm, she says: "For the first time, I felt really free. It was really wonderful." She is enjoying a better relationship with her father now that she's not in business with him.

For Paul, right now, the pluses are few. He's working for somebody else and misses the flexibility he had in the family business. He has to travel a lot more than he used to, so he's seeing less of his wife and children. And he misses working with his father.

"I've been through a heck of a lot in the last year, and I don't know that I'm over it," says Paul. "I don't know that I ever will be over it."

Both Maureen and Paul now earn less.

What could have prevented their leaving? Paul and Maureen respond to that question next month. ■

PLANNING

The Value Of Full, Open, Willing Disclosure

By John L. Ward and Craig E. Aronoff

"We know that disclosing our private intentions is the very best investment we can make in our business continuity and in our family's harmony. But it's so difficult."

A member of a very successful, multigenerational family business was speaking. The words grabbed our attention. But they raised many questions. What does "full disclosure" mean? Why is it so valuable? Why is it so difficult?

In our experience, the attributes of a strong family and a thriving business include some or all of the following:

- Family members trust one another.
- Family decisions are made with a spirit of genuine participation by all.
- Family members are effective in solving problems when disputes or differences arise.
- Family members can be honest and vulnerable with one another.
- Shareholders feel a sense of responsibility and stewardship for the welfare of the business.
- Leaders work hard to keep everyone's expectations in line with reality.
- Leaders and owners accept accountability.

"Full disclosure" is a critical element of each of these attributes. Sharing sensitive, personal information with one another can help build trust. Providing facts that affect

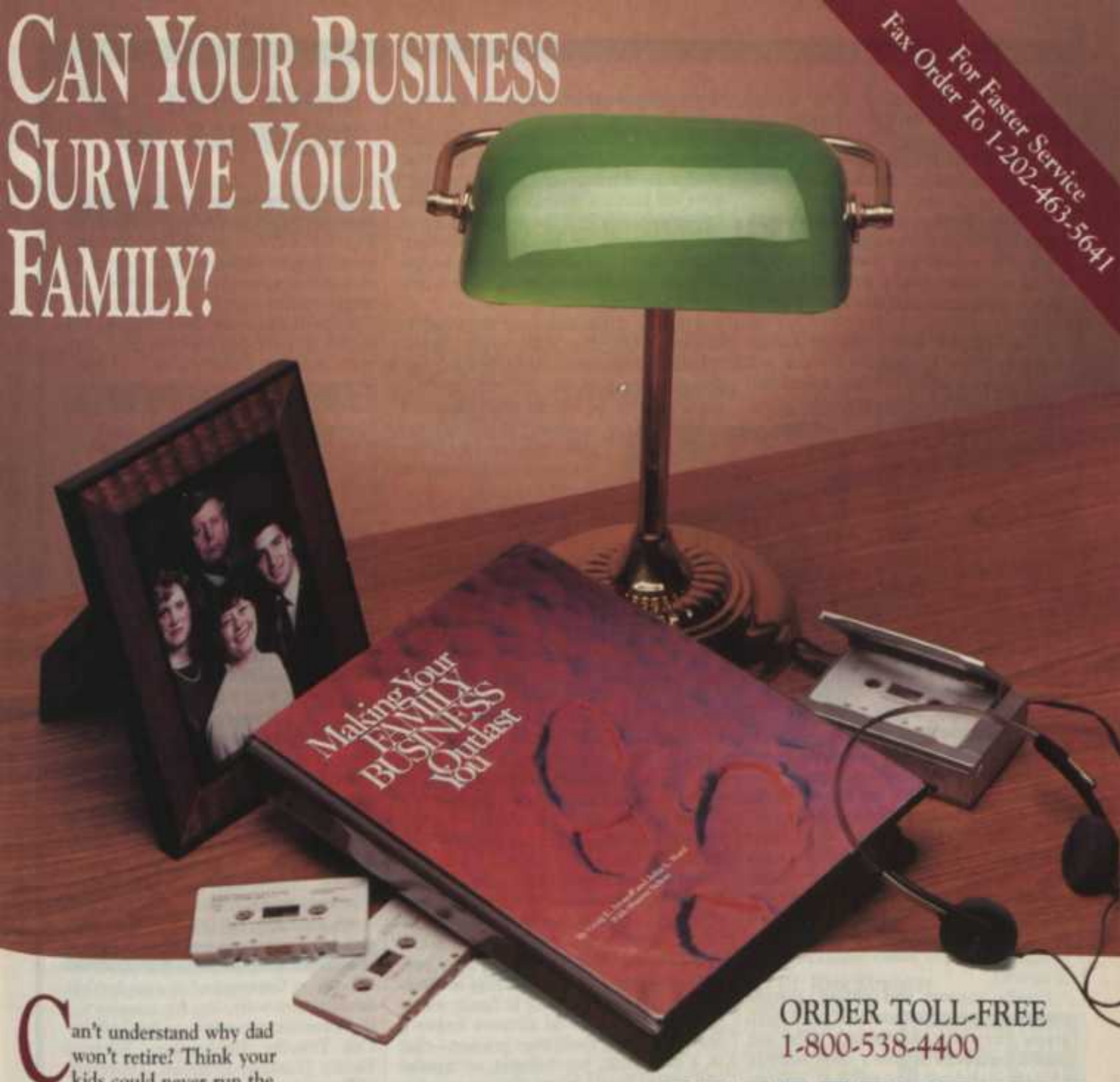


PHOTO: T. MICHAEL KEZA

John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. They are principals in the Family Business Consulting Group, Inc.

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one another's personal and business planning affirms responsible ownership and mutual respect. Reconciling differences in intentions and philosophies provides important opportunities to practice family decision making and problem solving.

Different families are comfortable with different levels of disclosure, particularly in relation to several key issues. Disclosure can be a matter of deep concern and hot debate, particularly as it is related to issues like these:

Compensation and perks of family members. Some families see these as private matters. Others feel that speculation and perceptions—or misperceptions—result in more problems than do the facts. Some note that officer compensation is routinely disclosed by public companies and not-for-profit organizations. Some believe siblings and cousins should know each other's pay; some disclose the parents' pay as a sign of complete openness. Personal time off and use of expense accounts can become particularly thorny perks if misunderstood or if seen as unfair.



ILLUSTRATION: TROY THOMAS

Wills and estate plans. Typically, family members do not share their wills and estate plans with one another. Concerns include the risk of harm should plans change and the fear of conflict over details of a plan. Failure to air plans, however, may cause inadequate or erroneous, uncoordinated estate planning that results in irreversible shocks to business liquidity or to other family members' sense of security.

Family support and gifting. Parents frequently try to balance out their children's circumstances through gifts and personal support. If that's done secretly, ultimate disclosure may result in jealousy and anger. Equal gifts and support are often interpreted as signs of equal love. Unequal gifts and support are often interpreted as a lack of recognition of those who earn more or save more responsibly. Secrecy sows distrust. Openness at least provides an opportunity for family members to reach understandings.

Shareholder liquidity. We recommend that family firms develop a plan to provide shareholder liquidity for those who desire it. In fairness to the business, there usually need to be limits on the availability of funds for redemptions. Consequently, rationing or priorities are usually necessary. Because family members may have different needs at different times, many families attempt to help each other plan by sharing their long-term intentions for redemption.

Choice of trustees and business successors. Many business owners fear that disclosure of trustee and successor nominees will hurt the feelings of those passed up—unnecessarily if the decision is eventually changed or becomes irrelevant. Others argue that disclosure helps people develop reasonable expectations and contingency plans.

Families differ not only on what is disclosed but also with whom. When information is shared, should it be shared just with next of kin and siblings? Or should it also be shared with children's spouses? What about outside directors, key advisers, and nonfamily executives?

Contemplating disclosure is painful. Risks are real. Voluntary disclosure surrenders some degree of control. Information, especially when secrets have been bottled up for years, can engender conflict. Often, however, we find that the most fearsome issue is the fear itself. Most business families find relief when the perceptions of secrecy and distrust are lifted away. Conflicts can then be managed in an environment of openness, support, and love.

But full and open disclosure isn't for everyone. Nor should it be rushed into overnight. If disclosure has not been your family norm, time is required to make openness a part of your family's culture. We recommend that the sharing of information unwind gradually, in family meetings, with professional advisers and/or a family-meeting facilitator present—that is, a consultant, psychologist, or trusted and skilled family friend who can assist in conducting the meeting and can assure that it's an environment where everyone can feel safe in expressing their thoughts.

Some business owners are more comfortable than others with disclosing information and plans. Experience with work in a public company or service as an outside board member may have helped them become accustomed to information sharing.

Those who are most comfortable with openness and sharing are those successful multiple-generation family firms that have lived through the fears of disclosure, have experienced the disadvantages of secrecy, and now are committed to building a strong foundation of trust and empowerment for the future. ■

MARK YOUR CALENDAR

Sept. 14-15, New York City

The Second Annual Wealth Management Forum explores such topics as money management and children, and what families expect of family offices. Call the Institute for International Research at 1-800-345-8016. In New York state, call (212) 661-8740.

Sept. 19, Toledo

"Consultants in the Family Business: Who, When, How, and Why," a seminar sponsored by the University of Toledo Center for Family Business. Call Debbe Skutch at (419) 537-4058.

Sept. 19, Philadelphia

"Strategy and Marketing in the Family Business" is a breakfast forum. Call Henry Landes of the Delaware Valley Family Business Center, 1-800-296-3832.

Sept. 27, Washington, D.C.

"Tying the Business Vision to Family Values" is a breakfast roundtable sponsored by the Center for Family Enterprise at George Washington University. Call (202) 994-9150.

Sept. 29, Bridgewater, N.J.

"Founding a Family Business and Getting It Off the Ground" is part of a series of one-day conferences sponsored by the Business Owners Institute. For additional topics and dates, call (908) 526-1500.

Oct. 15-18, Philadelphia

"The Next Generation" is a leadership-development workshop for members of the successor generation in family firms. Call Timothy Habbershon, Wharton Family Business Program, University of Pennsylvania, at (215) 898-4470.

Oct. 19, Boston

"Introduction to ESOPs" is a workshop on how employee stock ownership plans can be used for business continuity. For additional dates and locations, call the national Center for Employee Ownership at (510) 272-9461.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

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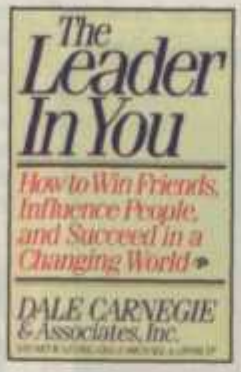
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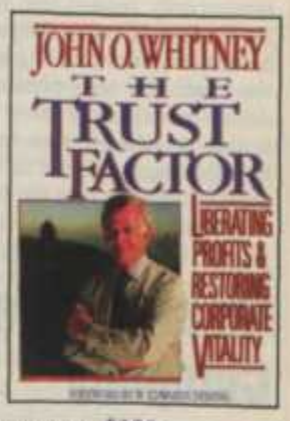
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Joel Barker

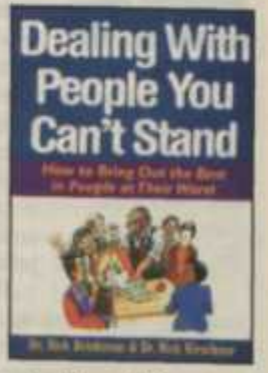


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FAMILY BUSINESS CASE STUDY

The Price Of 'Protecting' Your Family

Helen Peterson, 60, feels like a stranger in her husband's office at Peterson Plastics Corp., where Peter spent most of his waking hours. She can't believe how far removed she has become from a place that has had such a dramatic impact on her life.

Today, the building is quiet. Operations temporarily ceased two weeks ago when Peter died of an aneurysm. Bittersweet memories come flooding back to Helen as she gathers the photographs on his desk—memories of their son, Edward, a senior in college, who was slated to be Peter's successor but is now denied the chance to learn from his father; memories of the many sides of Peter, who was the consummate entrepreneur, quietly confident and never doubting his success or the success of the company but who also could be moody and demanding; memories of the private Peter, who kept the details of the $9 million business to himself, his accountant, and Albert, his plant foreman of 15 years. Peter was always proud of the fact that he "protected" Helen and Edward from the business.

Gentle persuasion on the part of Albert and Peter's accountant has brought Helen here to meet with them. "We need to take steps to ensure the continuation of the business," Albert told her. "And we need to make sure the employees are taken care of."

Helen never wanted to be part of Peter's business and preferred instead to be challenged as a full-time volunteer. Now she realizes she was part of a family business all along. "Peter's death has not only created a personal and financial crisis for Edward and me," she says to herself, "but it has also threatened the survival of the company." Then she adds, "What do I do now?"



ILLUSTRATION: TROY THOMAS

Stabilize The Company

The sudden loss of Peter has catapulted Helen into a role for which she and the company are unprepared. Peter's ultimate consideration of his employees, customers, and family should have been the development of contingency and succession plans. He should have shared problem solving and decision making to build leadership among those in his employ.

Now his death creates a crisis that necessitates a quick response. The firm's employees, customers, suppliers, and bankers must be convinced that the business will go on and that all stakeholders' interests will be addressed, just as they were under Peter's leadership.



PHOTO: STEVE BUCHANAN

Merv Singer, president of M.H. Singer & Associates, a management consulting firm in Glenview, Ill.

Helen has a vested interest in stabilizing the company until she can weigh all her options. She must pull together various pieces of information so that she can quickly assess the status of the company's marketing, sales, production, and finance. It's vital that she gain control of the decision-making process so that others with divergent agendas—those who might profit from the sale of the company, for example—cannot alter or narrow her options.

Key employees must be identified and made responsible for providing Helen with insight and information. Albert, the foreman, should be her starting point.

Helen's advisers—lawyers, consultants, accountants, and bankers, as well as key employees—are essential to her decision making. They can help her define the key issues, clarify options, and determine the steps that she must take. Once Helen has communicated by her actions that the business will go on and that relationships with employees, customers, and other stakeholders are still firm, she then will be in a position to decide what she wishes to do with her legacy.

Keep A Cool Head

"Who will run the company?" "How can the value of the business be preserved?" "How can we maximize the yield to the family?" These are the three vital questions that Helen Peterson must answer.

Her first imperative, however, is to get the business up and running. The competition will eat up the firm's markets in no time if it remains closed. Helen should reopen the company with the current staff under Albert to reassure customers that it will continue to serve their needs. The accountant must be heavily involved to ensure propriety in the operations.

Helen should also immediately appoint an interim—or caretaking—board to assist her in making decisions. It can include Helen and owners of other successful businesses.

One of the board's first tasks will be to help Helen recruit a competent manager to run the business until its destiny is determined. Although Edward may feel that he should step in and fill his father's shoes, he is ill-prepared to do so. He needs considerable outside work experience before he is ready to assume the role of CEO. It is also not known whether he has the "fire in his belly" that enabled his father to make the business a success.



Harrison W. Hine, principal, Promega—Business Management Associates, in Bellevue, Wash.

If Helen decides that she wants to sell the company, then every aspect of the structure and operations of the company must be adjusted to make Peterson Plastics as attractive as possible to potential buyers.

Helen would be wise to bring in a reputable mergers-and-acquisitions firm to assist with the sale and marketing process. It may be tempting to cut and run with an early sale at a bargain price. However, the future for Helen and her son depends on keeping a cool head and making businesslike decisions.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Georgann Crosby, a consulting partner in the Family-Business Roundtable, a consulting organization in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. **Copyright © by the Family Firm Institute, Brookline, Mass.**

MARKETING

Sales Growth: It's In The Mail

Whether it's a one-page letter or a colorful package, direct mail can help you target customers cost-effectively.

By Joan Delaney

Bob Judd launched his furniture-restoration business with a sales letter that was headlined: "When you have a service headache, take two aspirin and call Bob Judd." He included a small plastic bag containing two aspirin tablets. The response to his follow-up calls the next week was astounding, he says. "People were very receptive and laughing."

A promotional mailing can be an effective tool for nurturing current and former customers as well as prospecting for new ones. It can increase volume and extend your firm's geographical reach at little cost. All it takes is desktop-publishing capability and some postage.

A direct mailing can be as simple as a one-page letter produced with a computer or as complex as a professionally done package with color brochures, order forms, and reply envelopes. Whatever its size, a mail promotion helps you control costs because you decide its scope.

Decide if your mailing should be sent first class or third class. Each category has its own rules, postage rates, and weight and size limits. Stamped mail generally draws a better response than metered mail, according to direct marketers.

Start by drawing up a customer list—compile names and addresses from checks, invoices, sales slips—and computerize it. A computer can print labels and personalize letters. In addition, some software programs help organize customer information. Going a step farther, you can buy databases that include consumers' general income profile and buying patterns according to area, such as a ZIP code, to help you target specific markets. "As postage and paper costs increase, being able to better target prospects helps marketers keep within their direct-mail budgets," says Dennison Hatch, editor of *Target Marketing*, a Philadelphia-based magazine for direct-mail marketers.

You can rent mailing lists from list brokers, enabling you to blanket your local area or zero in on a demographic group. "Rental fees vary from $50 to $150 per 1,000 names for one-time use," says Hatch. Compiled lists include names chosen from phone books and directories. Mail-responsive lists, which are more costly, contain names of people who have responded to mailings.

To be effective, your promotional material must grab readers' attention. State a fascinating fact, cite a statistic, or ask a provocative question. Explain why you think your product or service is superior. Customer testimonials, a celebrity endorsement, or a laboratory test report may be worth a separate insert.



ILLUSTRATIONS: GEORGIA LEIGH MCDONALD

Once you've made your pitch, you must persuade your readers to take action. To generate phone responses, provide a toll-free number for more information. Include a reply card. "Offer a discount, a free consultation, or [a] demonstration if they respond within a few days," Hatch suggests. Remember, you're competing with a lot of other mail, so make your envelope stand out from the rest: Make it colorful or oversized, or use it to trumpet your company logo. Add a line like "Rush Service" to help make the sale.

Test your direct-mail piece by sending it to 100 recipients. If the letter generates a good response, you can quickly produce sales leads whenever you need them. For example, if your letter generates a 3 percent response—a typical response rate—mailing 100 letters will typically produce three inquiries. If your goal is to get 10 sales leads, you'll need to mail 300 to 400 letters. If the letter produces no responses, go back to the keyboard and try again.

For those on shoestring budgets, inserting coupons in mail packs can be an inexpensive way to develop new trade and an excellent tool for evaluating advertising. The cost per target is considerably lower because your firm's coupon is one of many in the package. For best results, offer at least a 15 percent discount. Coupons often draw consumers who buy only at discount and never become regular customers, so be sure to monitor the results.

Tom Aston, owner of the Buffalo Outdoor Center, a vacation, camping, and canoeing facility in St. Joe, Ark., increases business in the off-season by mailing a newsletter and coupons for cabins during January and February. "In the winter months probably 80 percent of our business is generated by coupons," he says.

As Aston discovered, newsletters are inexpensive and make readers more aware of your company and its products. If you publish a newsletter, don't try to compete with trade and consumer publications. Focus on news and information that will educate your customers. Use a friendly, conversational style. A well-produced newsletter can improve customer relations and lead to immediate and direct sales.

As competition increases, so does the importance of fresh, creative approaches to attract customers. Define your problem, aim for innovative solutions, and then test them to make sure they will work. NB



Joan Delaney is a freelance writer in Larchmont, N.Y.

Small Business Financial Adviser

Supplemental benefits for key employees; a move to simplify partnership taxes; timing the stock and bond markets.

Small Business Discovers Nonqualified Pensions

By Mary Rowland

Because regulatory changes keep whittling away at the amount of money that can be contributed to retirement plans and keep burdening companies with complex requirements, more employers are turning to supplemental plans, also called "nonqualified plans," where they can largely make their own rules.

Such plans were begun 25 years ago at large companies, and now "the concept of providing supplemental pension benefits is sneaking down into smaller plans," says G. Patrick Byrnes, president of Actuarial Consultants Inc., in Torrance, Calif.

Traditional pension plans are called qualified plans because the employer qualifies for a tax deduction for contributions made. In exchange for the deduction, the government makes the rules, including how much can be contributed to the plan for each employee, how much can be paid out in annual benefits, and how the plan must be tested to make certain it does not discriminate against lower-paid workers.

Over the past decade, qualified plans have been a congressional target because tax-deductible contributions are viewed as a major source of lost tax revenue. At least a dozen pieces of legislation provide new limits and rules for these plans.

Employers have responded by setting up their own retirement plans that are outside the purview of the government. These plans, which are called nonqualified plans because they get no immediate tax deduction, can operate in any manner the employer chooses. They can include only a handful of people. They can give each participant a different benefit amount. They can be used as recruiting tools.

"One employee could get 20 percent of salary and another 3 percent," says Ethan Kra, chief actuary for retirement services at William M. Mercer Inc., benefits consultants in New York. "The benefit could be based on a performance rating, or length of service, or the profitability of your territory."

For participants, the biggest drawback to nonqualified plans is the lack of benefit security. The benefit *cannot* be funded by setting up accounts in the names of plan participants. If participants are given ownership of the funds that will pay their future benefit, the Internal Revenue Service maintains that such funds are currently taxable to the employee.

As a result, a nonqualified plan merely represents the company's promise to pay a benefit. That promise could be canceled in the event of bankruptcy, a change in management, or simply a change in management's opinion of the employee.

A recent survey by the Foster Higgins consulting firm found that 61 percent fund their nonqualified plans on a pay-as-you-go basis. This approach assumes that future growth of the business will cover the benefit obligations. Most of the other plans are funded either through a "rabbi trust"—so named because the first one was set up for a rabbi in Baltimore—or through company-owned life insurance.

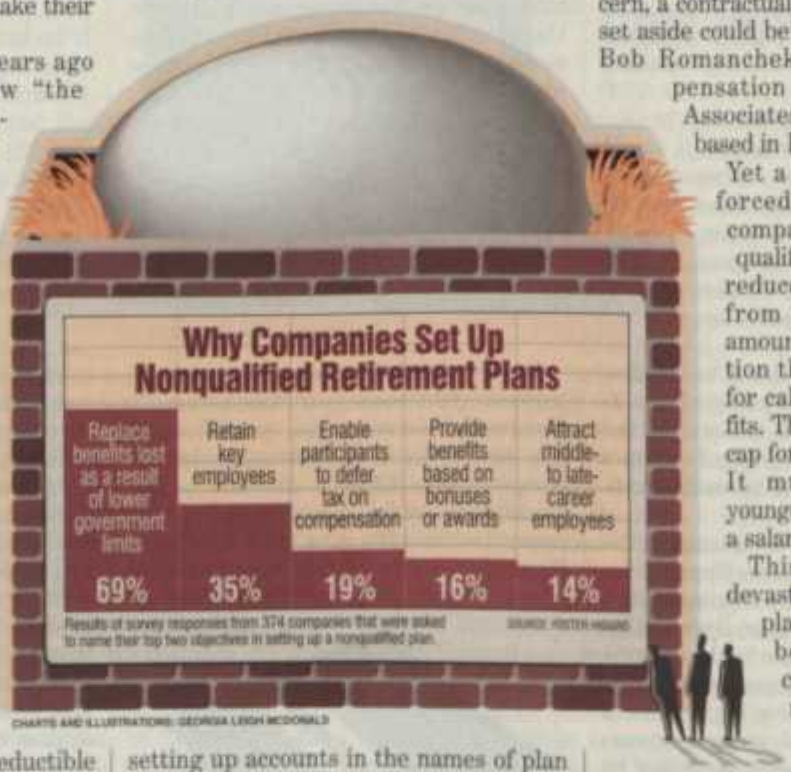
The insecurity of a nonqualified plan's benefits is a particular concern for small companies. "With a small organization where bankruptcy might be a daily concern, a contractual promise without assets set aside could be somewhat scary," says Bob Romanchek, an executive-compensation consultant at Hewitt Associates, benefits consultants based in Lincolnshire, Ill.

Yet a 1993 tax law change forced many more small companies to consider nonqualified plans. The new law reduced to $150,000 in 1994 from $235,840 in 1993 the amount of annual compensation that can be considered for calculating pension benefits. The $150,000 figure is the cap for an employee at age 65. It must be reduced for younger employees to project a salary of $150,000 at age 65.

This change also had a devastating impact on 401(k) plans at small companies because of the nondiscrimination tests they must pass. For purposes of this test, highly compensated workers are considered to be those who make more than $66,000 a year.

To perform the test, the employer must group all the lower-paid workers and calculate their average 401(k) contribution; higher-paid workers are grouped separately for calculation of their average contribution. If the average for lower-paid workers is 4 percent of salary, for example, then the higher-paid group can contribute no more than 6 percent. For a worker earning $66,000, that is $3,960.

This change affected smaller companies more than larger companies because they have fewer employees to include in the test. Many small companies responded by



CHARTS AND ILLUSTRATIONS: GEORGIA LEIGH MCDONALD

setting up nonqualified "excess plans" to replace retirement-plan benefits lost because of the 1993 tax-law changes.

"The size of the company is no longer the issue," Romanchek says. "It could be anything from a family business with five employees to General Motors. Whenever you want to provide more benefits than what is permitted by the qualified plan, then a nonqualified plan can make sense."

How to decide if it's for you? The first hurdle is that your business must have some longevity so that it will be able to claim a business-expense deduction for benefits paid. The employer is not permitted to take any business income-tax deduction until nonqualified plan compensation is actually paid to the participants. (Likewise, the money is not taxable to the employee until it is actually received.) Thus, a business that does not survive the owner will not get any tax deduction for benefits paid to plan participants after the owner retires.

If you clear the longevity hurdle, you might be a candidate for a nonqualified plan provided you answer yes to at least one of these questions:

■ Do you have four or five highly compensated employees whose retirement benefits from qualified plans are capped by federal law? "I think a nonqualified plan makes sense just to replace what is lost from the $150,000 salary cap," says Joan Vines, a senior manager in Grant Thornton's office of federal-tax services in Washington, D.C.

■ Does your business lack a retirement plan? Perhaps your inability to fund a pension plan is preventing you from hiring and keeping key people. "Nonqualified plans make sense in an environment where the employer has decided that he can't afford a retirement plan for everybody, or he throws up his hands because of the regulations but then can't keep key people without any type of benefit," Vines says. You might consider a nonqualified plan just for key people.

■ Could you use some type of short-term incentive plan for recruiting purposes? This type of plan is really an incentive compensation plan rather than a retirement plan, although it is still in the nonqualified arena. "Perhaps you bring on a new executive and he's unproven," Vines says. "You might agree to pay him $100,000 a year, but only $50,000 will be current compensation. The other half goes into a deferred-compensation plan for five years until he meets his goals."

Finally, if you attempt to include *all* your employees in a nonqualified plan, you will run afoul of the Employee Retirement Income Security Act of 1974, or ERISA, the major federal law governing pension plans. The Department of Labor mandates that only top management and "highly compensated" employees can be included in these plans. Neither of these terms has ever been clearly defined by the Labor Department. But it is quite clear that rank-and-file workers may not be included.

Experts say that it is in this area that they see the most errors in small-business plans. "What I've seen over and over again is that small employers just do them for everyone," Vines says. "That results in a big violation of ERISA." ■

REGULATION

IRS May Simplify Partnership Taxes

As new forms of business organization develop, the distinctions between corporations and partnerships (and other unincorporated business organizations) are blurring.

Many states have revised their statutes to allow partnerships and unincorporated businesses to have many corporate characteristics. For example, some states now allow partnerships to shield partners from unconditional liability, a key reason in the past for choosing the corporate form of organization.

Conversely, limited-liability companies, now permitted in most states, allow partnership-taxation treatment for organizations that are essentially indistinguishable from corporations. Thus, profits are taxed only once as personal income to partners, not twice as is the rule for regular corporations (first as corporate income and then as dividends to shareholders).

Structuring a business to give it corporate features for legal purposes and yet have it treated as a partnership for tax purposes takes considerable effort by business owners and their tax advisers. A partnership or a limited-liability company could, if improperly structured, be treated by the Internal Revenue Service as a corporation and thus be subject to corporate double taxation.

The IRS has proposed a way to solve this problem, however. In Notice 95-14, issued March 29, the agency announced that it is now considering allowing taxpayers with unincorporated businesses to elect to have their businesses treated as a partnership for tax purposes no matter how they are structured. This would eliminate the need for careful structuring to achieve partnership treatment.

For example, in the past, limited partnerships have used a corporate general partner to insulate all individuals from liability. But if the corporate general partner is a "shell corporation" with no assets, the IRS currently will treat the limited partnership as a corporation for tax purposes. If this new election is adopted, however, tax specialists could then use a limited partnership with a shell corporation as a general partner and still be sure of having it treated as a partnership.



There has been a similar concern regarding limited-liability companies. If a limited-liability company is improperly structured, it could be treated by the IRS as a corporation. Again, the new election would guarantee tax treatment as a partnership.

A cautionary note is required for those unincorporated organizations presently treated as corporations for tax purposes. An election to be treated as a partnership would be considered by the IRS as a liquidation of the corporation. And such liquidation might be taxable. If the proposed provision is adopted by the IRS, taxpayers should consult their advisers before electing partnership treatment.

It should also be noted that the IRS proposal would not allow actual corporations to be treated as partnerships; this can still be handled through the use of an S-corporation structure. (For more on S corporations, see Dateline: Washington, on Page 8.)

A hearing on the IRS proposal was scheduled for the end of July. Barring unexpected opposition, it most likely will be adopted.

—Albert B. Ellentuck

The author is counsel to the Washington, D.C., law firm of King & Nordlinger.

INSURANCE

Group Purchasing, Group Protection

In more ways than one, small businesses are finding that they can work collectively to protect themselves with liability insurance, thus lowering expenses on everything from introducing new products to handling hazardous materials like dynamite.



One way is through a risk-retention group. Begun in the 1980s as a defense against then-escalating insurance premiums, these groups allow businesses in the same industry, like plastics or chemicals, to cut insurance costs by effectively chartering "mini-insurance companies" to self-insure against liability claims. Today, there are about 75 risk-retention groups in the U.S.

But an even faster-growing variant of the risk-retention group is the risk-purchasing group. Under it, similar businesses are grouped together—usually by insurers, agents, or business associations—not to self-insure but to buy liability coverage collectively.

In the first six months of 1995 alone, 46 risk-purchasing groups were formed, nearly double the 26 for the same period last year. The national total is now 492.

There is a reason, of course, says Karen Cutts, a lawyer and editor of a Pasadena, Calif., newsletter called *The Risk Retention Reporter* and author of a new book, *A Practical Guide to Risk Purchasing Groups*. "Risk-purchasing groups enable small businesses to have economies of scale in buying insurance and to tailor the insurance to their needs," she says.

Curiously, one reason for the rapid growth has to do not with high insurance premiums but with persistently low ones since the end of the 1980s. This has left many property and casualty insurance carriers competing for profitable ways to sell insurance to small businesses.

By forming or targeting risk-purchasing groups, the insurance companies get the benefit of simultaneously selling to many small businesses, reaping what Cutts calls a "critical mass" of premiums upon which the insurance companies can make a profit.

The businesses, in turn, get group leverage with carriers to negotiate good prices and, more to the point, obtain what Cutts calls "relevant" insurance coverage.

One example is the Propane Gas Purchasing Group of Houston. The group, made up of about 1,600 retail propane dealers throughout the U.S., gets its liability coverage from Houston's Ranger Insurance, a longtime writer of propane-dealer insurance.

After inspecting the dealer for adherence to safety procedures, Ranger sets a company's premium according to the volume of propane the firm sells. Premiums average about 15 percent below those for dealers who buy coverage individually, which is sometimes tough to do.

For more information about risk-purchasing groups and whether any exist or can be formed in your industry, contact your insurance agent or broker, or call Judy Harrington, executive director of the National Risk Retention Association, at 1-800-999-4505.

—John S. DeMott

LEGAL ARRANGEMENTS

Who Acts For You When You Cannot?

What if you are stuck someplace away from your business or suddenly become incapacitated? Who will sign checks and contracts and otherwise act in your place while you are unable to do so?

"If you are the sole proprietor of a business," says Fred Steingold, an Ann Arbor, Mich., lawyer and author of *The Legal Guide For Starting And Running A Small Business* (Nolo Press), "your spouse or some other trusted person should have a durable power of attorney to handle your business affairs in your absence."

A durable power of attorney is a relatively inexpensive document—the cost is $100 to $200—drawn up by a lawyer empowering someone to act on your behalf. It's called "durable" because it can work while you are incapacitated as well as when you are functioning normally. As a rule, when you die, the durable power of attorney dies with you.

There are two basic types of durable powers of attorney: general and limited. "The general durable power of attorney," says New York lawyer Edward S. Schlesinger, "authorizes your agent to do just about everything you, the principal, can do and for this reason should only be given to someone you trust implicitly."

The limited, or special, durable power of attorney, Schlesinger says, limits your agent to specific tasks, such as buying or selling equipment, or taking your place at a real-estate closing transaction. After the task has been completed, he says, the designated agent's power ends.

A durable power of attorney is rarely used in partnerships. "In this case," says Steingold, "the usual rule of law gives every partner the right to act in each other's place." But partners should be protected by language in the partnership documents. Those words should spell out how the partners' financial interests are handled when one of them becomes incapacitated or dies.

When you set up a durable power of attorney to protect your business interests, be aware of potential traps. "Some banks, insurance companies, title firms, and stock-transfer agencies are not always keen on dealing with a durable power of attorney," Steingold says. They may want you to use their legal forms, he explains, or have legal language on file that protects them against someone coming in with a durable power of attorney that has been revoked.

—Peter Weaver



INVESTING

Asset-Allocation Funds Attempt To Time The Market

By Randy Myers

Kevin Lopatin thought he'd found the answer to a novice investor's prayers last year when he invested a chunk of money in Fidelity Asset Manager, an asset-allocation fund that had been a hot performer since its inception in 1988.

Unlike most mutual funds, which are chartered to invest in one specific class of assets—domestic stocks, government bonds, or foreign stocks, for example—asset-allocation funds generally give their managers free rein to invest in whatever class of assets they find most appealing. They might have 90 percent of their money in stocks and 10 percent in bonds on Monday and, if the manager wishes, 10 percent in stocks and 90 percent in bonds on Tuesday.

The idea is to put your money to work wherever the manager thinks it will produce the greatest returns, and it has some appeal: Academics have calculated that investment returns largely depend on how assets are allocated among stocks, bonds, and other asset classes, rather than which stocks, bonds, or other securities are actually purchased. If so, the reasoning goes, perhaps it's better to let an investment professional make allocation decisions for you rather than try to make such decisions yourself.

In fact, though, the 175 asset-allocation funds tracked by the Chicago-based research firm Morningstar Inc. posted a total average return of just 12.5 percent through the first half of this year, trailing the 16.6 percent return of the average domestic stock fund.

Even balanced funds—which, like asset-allocation funds, invest in both stocks and bonds, but in relatively fixed percentages of each—have outperformed asset-allocation funds as a group over the past three-year, five-year, and 10-year periods, Morningstar's data show.

Nonetheless, asset-allocation funds are becoming increasingly popular investment options in many business-sponsored 401(k) savings plans. For his part, Lopatin, a 28-year-old systems analyst for EMI Records Group North America in New York City, is decidedly less enthusiastic about these funds after last year's experience.

"I expected that my money would be protected," Lopatin recalls of his 1994 investment in Fidelity Asset Manager. "I figured that [fund manager Robert Beckwitt] would be able to foresee bad things happening and protect the fund." How? By shifting out of potentially troubled asset classes before any real damage was done.

As Lopatin and thousands of other investors found out, though, Beckwitt's license to shift assets within his fund didn't come with a crystal ball. After averaging returns of 16 percent a year since its founding in 1988, the fund lost 6.6 percent of its value in 1994, when the average domestic stock fund fell just 1.7 percent, and the average asset-allocation fund fell 2.8 percent.

Much of Beckwitt's fund's poor performance last year, it turns out, was attributable to its heavy 17 percent stake in Mexican securities, which tanked when Mexico suddenly devalued the peso. Since then, Beckwitt has vowed to diversify more aggressively. Nonetheless, his fund still lagged through the first half of this year, returning just 8.4 percent, or about half the return of the average domestic stock fund. Beckwitt's heavy weighting in Mexican stocks last year illustrates an inherent problem with asset-allocation funds: It's hard to know what you're buying, and in the end, most are simply trying to time the market.

To find out just how different asset-allocation funds can be, we sorted through Morningstar's mutual-fund database. On average, the 175 asset-allocation funds had 51.5 percent of their assets in stocks, 32.5 percent in bonds, and 12.6 percent in cash as of March 31. (Preferred stocks and assorted other securities made up the difference.)

But there were wide disparities from fund to fund, even within the top 10 performers. The one with the biggest gains over the past three years (Quest for Value Opportunity, Class A) had a whopping 80.1 percent of its assets in stocks and only 1.0 percent in bonds. But the third-best performer (the Bruce fund) had only 29.0 percent of its portfolio in stocks.

Perhaps the most serious criticism of asset-allocation funds is that they are essentially trying to time the market—to predict when stocks or bonds will go up or down in value and to move in and out of those sectors with prescient effectiveness.

"I don't believe anybody can get that right," says Michael Stolper, editor of the investment newsletter *Mutual Funds Monthly*. "If you're a believer in history as an expression of probability, all you need to know is that in any 10-year period you'll produce a better outcome by investing in domestic equities [U.S. stocks] than in fixed-income [bonds].

"So your asset-allocation strategy should be a function of how much time you have. If you just sort of buy stocks and go to sleep and live long enough, things generally work out. But there's a human need to fiddle on the margins."

What if you're convinced that there is somebody out there who's right more often than wrong in timing the markets? In that case, look for an asset-allocation fund with a proven long-term track record, preferably one that's still run by the same person who built that record. Then look at its asset mix and allocation strategy (both are in the fund prospectus) to decide if the fund meets your objectives. ■

Five Top-Performing Asset-Allocation Funds

For The Three Years Through June 1995

Fund	Three-Year Annualized Return	YTD Total Return	Asset Allocation As A Percentage Of Total Assets* Stocks	Bonds	Cash	Other
Quest For Value Opportunity A	17.2%	28.5%	80.1	1.0	18.1	0.8
SoGen International	13.1	8.3	53.5	17.0	14.6	15.0
Bruce	12.9	25.8	29.0	69.7	1.3	0.0
Overland Express Allocation A	12.8	18.8	68.8	29.3	1.9	0.0
Fidelity Asset Manager: Growth	12.8	8.8	57.8	19.6	22.6	0.0
S&P 500 Stock Index (with dividends reinvested)	13.2	20.2				

*As of March 31, 1995

SOURCE: MORNINGSTAR, INC.

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LEGISLATION

Privatization Puzzlement

Proposals to sell big chunks of government leave small business wondering about the possible impact.

By John S. DeMott

Proposals to privatize many federal government activities—from the Tennessee Valley Authority to the U.S. Postal Service to the space shuttle program—are threading their way near and through Congress as Democrats and Republicans grope for ways to balance the federal budget.

But what would a massive sell-off of government properties and services mean to small businesses?

In some instances, the outlook is hazy. The thousands of small suppliers and subcontractors for the space shuttle program, for example, are likely to function pretty much as they do now even if privatization is brought to some aspects of that program, as the Clinton administration and House Republicans have proposed.

A spokesman for the National Aeronautics and Space Administration's Office of Small and Disadvantaged Business Utilization says: "I don't see privatization changing any fundamental relationships between our contractors and their smaller suppliers."

Yet, in a drearier forecast, some small shuttle suppliers could be in for a bumpy ride.

Under the NASA contract system, components of a contractor's bid are awarded points for various characteristics, and the point total helps determine whether the bid succeeds or fails.

Currently, large contractors receive bonus points for allocating work to small and minority subcontractors. But privatization could reduce or eliminate that practice, leading to the possible exclusion of some small businesses that have long been suppliers to NASA contractors, says Pat Dasch, editor-in-chief of *Ad Astra* magazine, the journal of the National Space Society, in Washington, D.C.

Dasch says privatization of the shuttle effort may cause some major space contractors to "drop their small suppliers like a bomb to cut costs. To compete successfully, small businesses are going to have to offer quality and get selected on merit."



PHOTO: T. MICHAEL KEZA

Privatizing *parts of the space shuttle program could affect some small suppliers.*

In other instances, privatization's benefits to small business are more clearly defined. Says Rep. Scott Klug, R-Wis., who is coordinating 14 privatization bills in the House:

"There are 110,000 printers in the U.S., so why can't you let out the government's work to them and make the Government Printing Office responsible [mainly] for letting out contracts?"

One of those printers, the William Byrd Press Inc., in Richmond, Va., expects to increase the amount of work it does for the government if Klug's vision pans out.

Says John Phillips, vice president of Cadmus Corp., which owns Byrd: "I am confident that anything the government can do, the private sector can do much better. Besides, there's excess capacity in our industry, so [privatization of government printing] would mean great opportunity for us."

For his part, Klug sees opportunities for small business almost everywhere in what he calls the promise of privatization. As he told *Nation's Business:* "Why do we have federal employees doing janitorial services? Or installing Venetian blinds?" Or cutting politicians' hair?

In a largely symbolic action in June, privatization-minded House Republicans voted to turn over many services at the U.S. Capitol to private companies—from the running of the House barber shop to the act of briefly raising U.S. flags over the Capitol on flagpoles so members of Congress can give the flags as souvenirs to constituents. The function currently is performed by the staff of the Architect of the Capitol, and no replacement private contractor has yet been selected to do it. Says a spokeswoman: "We're still working out the details."

Although Republicans currently are leading the privatization discussion, Democrats are weighing in with ideas of their own. In his budget for next year, President Clinton has called for privatizing parts of the National Weather Service, the background-checking function of the Office of Personnel Management, and the helium-reserve program run by the Department of Transportation.

The second phase of Vice President Al Gore's reinventing-government effort, begun in January and called the National

Performance Review, calls for all federal agencies to suggest ways to save money, including privatization.

So far, the Department of Energy has recommended—and Clinton has endorsed—selling the Naval Petroleum Reserve at Elk Hills, Calif., and Teapot Dome, Wyo., converting the Bonneville Power Administration in the Northwest to a government corporation, and selling the remaining four federal power administrations in the Northwest to private investors.

How much money could the government get from a privatization sale? Robert Poole Jr., chairman of the Reason Foundation, in Los Angeles, a libertarian-leaning group, told the Senate Budget Committee earlier this year that about $382 billion could be realized in one-time proceeds from the sale of 21 federal enterprises and assets ranging from the air traffic control system to broadcast frequencies and various government buildings.

Poole also says additional savings of $39.6 billion could be generated annually from reduced interest on the national debt and slimmer federal subsidies because of sold-off government activities. A frequent adviser to GOP leaders on the privatization issue, Poole used a common hit list of candidates for privatization to generate his numbers.

"I am confident that anything the government can do, the private sector can do much better. Besides, there's excess capacity in our industry, so [privatization of government printing] would mean great opportunity for us."

—John Phillips, Vice President, Cadmus Corp.

Privatization does have its critics. Most strident are public-employee unions, whose members could lose jobs under some privatization efforts. Says Gerald McEntee, president of the American Federation of State, County and Municipal Employees, AFL-CIO: "By privatizing public services, we turn them over to a contractor accountable to no one, whose only loyalty is to the bottom line."

In many instances, privatization is easier said than done. Just because the government wants to sell something doesn't mean there will be buyers. In 1981-82, the Grace Commission on combating government waste suggested several candidates for privatization, but nothing ever came of it.

Klug says the Postal Service could be the toughest privatization task of all, with selling it to its employees through an employee stock ownership plan the idea most likely to attract support.

And he's confident that privatization will confront far less resistance than it did during the 1980s, when the notion got its first serious hearing. Says Reason's Poole: "I'm very encouraged that [many of] these things that were talked about in the Reagan years are now part of Clinton's budget."

This time, says Klug, "both ends of Pennsylvania Avenue"—the Congress and the White House—are in rough agreement that privatization is an idea whose time has come. NB

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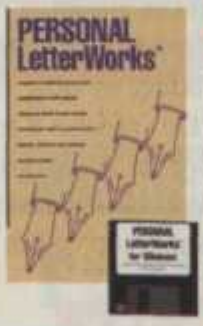
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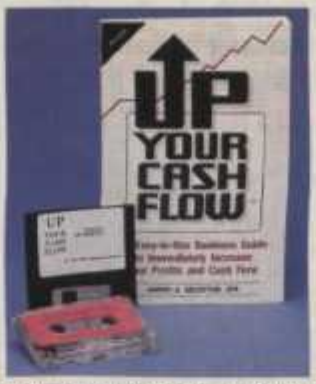
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Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Laura M. Litvan

INTERNATIONAL TRADE

Tuning Up For Business Abroad

My company repairs aircraft engines for commercial airlines and private aircraft owners. So far, we have served only domestic clients, and I want to begin seeking customers in other countries. But I understand the government has a list of countries with which it is illegal to do any business. Which nations are affected by such policies, and how can I learn more?
A.M., Miami



ILLUSTRATIONS: MARTHA VAUGHAN

Since World War I, the U.S. government has used trade embargoes to achieve national-security and foreign-policy objectives. Currently, six nations are subject to strict, broad-based economic sanctions from the United States. They are Cuba, North Korea, Iran, Iraq, Libya, and parts of the former Yugoslavia (Serbia and Montenegro).

Both Congress and the president have the power to impose an embargo, but in recent years such restrictions have been established primarily through presidential executive orders.

U.S. policy on sanctions toward a country can change frequently in a relatively short time if relations between the two nations are tense. For example, the United States imposed a trade embargo against Iran after the U.S. embassy in Tehran was seized and diplomats were taken hostage in 1979. But the embargo's provisions were later scaled back through executive order, then tightened twice recently by President Clinton.

Clinton signed an order March 15 prohibiting U.S. involvement in any petroleum development in Iran, citing Iranian interference in the Middle East peace process. A May 7 order still in effect is more far-reaching. It prohibits all trade in goods, technology, and services with Iran. In expanding the sanctions, the president cited Iran's support of international terrorism and its efforts to obtain materials used to make nuclear weapons.

Currently, the provisions of the six trade embargoes that affect U.S. exporters prohibit the sale of goods or services, either directly or through third countries. But the detailed regulations governing the sanctions differ from country to country.

For example, a U.S. company can export informational materials like books and films to many of the nations, and medical supplies are allowed in some instances. Also, the Treasury Department can license specific items for trade on a case-by-case basis.

For more information, contact the Treasury Department's Office of Foreign Assets Control at (202) 622-2440. Also, if you have a modem, you can tap into a computer bulletin board called FedWorld by dialing (703) 321-3339. Once you are in the system, select option "C" for business, trade, and labor information, and "E" for Treasury Department information.

FedWorld is also accessible via the Internet. The address is http://www.fedworld.gov. ■

GETTING STARTED



In The Cards

I'm starting a greeting-card manufacturing and design firm, and I need sources of information on distribution and other matters.
T.B., Gresham, Ore.

The Greeting Card Association, based in Washington, D.C., provides a publication, *Directory of Greeting Card Sales Representatives*, which may help you get started. You can obtain a copy for $95 and learn about other available resources by calling the association at (202) 393-0336.

Here Come The Brides

I am interested in starting a bridal-consulting business or a bridal-gown shop. Are there any agencies or groups that could give me more information or some ideas?
D.L., Freeville, N.Y.

The Association of Bridal Consultants offers a book, *Weddings as a Business*, that should be useful. It addresses matters you need to consider in launching either a wedding-planning or bridal-apparel firm, including legal, insurance, and advertising issues. The book costs $50 for members and $99 for nonmembers. An annual association membership is $75 for anyone just getting started. Call the association at (203) 355-0464, or write to the organization at 200 Chestnutland Road, New Milford, Conn. 06776-2521.

Loaded For Bear

I am starting a sporting goods store, and I need to know where I could acquire inventory. Specifically, I need addresses of companies that provide hunting clothes and other equipment.
E.C., Mobile, Ala.

The Sporting Goods Manufacturers Association, based in North Palm Beach, Fla., can provide you with lists of equipment makers and their fax and toll-free telephone numbers. List the types of products you need, and call the association at (407) 842-4100, or write the organization at 200 Castlewood Drive, North Palm Beach, Fla. 33408. ■

HOW TO ASK

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EMPLOYEE BENEFITS

Dropping Vacation Time

I operate a 45-employee nursery that sells plants to hotel operators, retailers, and other clients. Recently, sales dropped off. To cut costs, we stopped providing workers a week of paid vacation a year. Even though we are nonunion, I now wonder if this poses legal problems. What, if any, paid or unpaid vacation benefits must I offer employees?
D.M., La Puente, Calif.



Federal law doesn't require employers to provide paid vacation time, and states don't either. But under the federal Family and Medical Leave Act of 1993 and a similar state law in California, if your firm grows to 50 employees or more, you must offer workers up to 12 weeks of unpaid time off annually to care for a child after a birth or an adoption, to look after an ailing family member, or to nurse a serious medical condition of their own.

So while the short answer to your question appears to be "none," as with most personnel matters the issue is a tad more complicated.

A deputy commissioner of the California Labor Commissioner's office says his agency has administrative authority to require "fair and equitable" employment practices, and eliminating vacation benefits—particularly if the time has already been accrued—could raise eyebrows there. The agency can seek a court order directing a company to make good on its promises to workers.

Also, in a phone conversation with us you mentioned that, despite your general revocation of paid vacation time, you let an executive take a two-week paid vacation recently. While employers may distinguish between executives and the rank and file in their vacation-benefits policies, employment-law attorneys generally advise against doing this informally.

Sharon Grodin, a partner in the Emeryville, Calif., firm of Corbett and Kane, advises that you develop a written vacation-benefits policy for your company.

Grodin says that by informally giving vacation time to selected workers, you increase the likelihood of a job-bias lawsuit. Some employees may conclude that your selection was linked to race, sex, or some other discriminatory factor, she says.

Grodin adds that if you don't have a written policy, anyone allowed to take off under mitigating circumstances could think they are entitled to do so again, even if that isn't your intent.

Finally, although only you know what benefits you can afford to offer, you could create a deep rift with workers by eliminating a benefit. Frances Morton, a senior consultant with Alexander and Alexander Consulting Group in Lyndhurst, N.J., says, "Employees can perceive that as being a fundamental blow to their relationship with the employer, and they won't forget it." NB

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Where I Stand



On Immigration

Background: Legislation to overhaul federal immigration laws has begun to move in the Republican-controlled Congress amid concern over the large numbers of illegal immigrants in this country and the cost of government benefits many of them receive. These questions seek your views on these issues.

Results of this survey will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid reply card. Or circle the answers below and fax this page to (202) 463-5636.

1 **What do you view as the greatest problem with immigration policy today?**

1. Failure to keep out illegal aliens
2. Too many legal immigrants allowed into the U.S.
3. Too many restrictions on employers hiring legal aliens on a temporary basis
4. Inability to determine an alien's legal or illegal status
5. Don't feel there is any major problem

2 **What should be the top priority for allowing those who are not U.S. citizens into this country?**

1. Keeping families together
2. Bringing in specific work skills needed by business
3. Increasing the diversity of the U.S. population
4. Aiding refugees and those seeking asylum

3 **What is the best way to ensure that employers don't hire illegal aliens?**

1. Current policy: Employers verify legal status of applicant or face fines
2. A national identification system that employers could use to verify applicant's legal status by telephone
3. A work-authorization card that can be verified like a credit card
4. Random spot checks of workplaces by federal authorities

4 **What do you think is the best way to deal with illegal immigration across the U.S.-Mexican border?**

1. More resources for the U.S. Border Patrol
2. Tougher penalties for persons who hire illegal aliens
3. Creation of well-paying jobs in Mexico
4. Stiffer punishment for those who are caught

5 **The United States currently allows about 1 million legal immigrants into the country each year. How do you feel about this amount?**

1. Too low; more legal immigration should be allowed
2. About right
3. Too high; there should be fewer legal immigrants
4. Limits should be increased for business-sponsored immigrants

6 **Current immigration laws limit the number of visas for foreign nationals with specific skills to work in the U.S. for limited periods. What changes should be made to the limitation?**

1. Allow more visas for noncitizens to work in the U.S.
2. Increase the duration that business-sponsored aliens can work in the U.S.
3. Allow fewer visas for noncitizens
4. No changes are needed

Send Your Response Today!

POLL RESULTS

Readers' Views On Budget Cuts

Nearly two out of three respondents to the Where I Stand poll in the July *Nation's Business* expressed skepticism that the 1996 budget outline approved by Congress will lead to actual spending cuts.

And six out of 10 respondents said tax cuts should wait until spending cuts are made or until actual spending and revenues are equal.

The GOP plan to balance the budget by 2002 calls for $983 billion of reductions in projected spending over seven years and tax cuts of up to $245 billion. Congress is now considering appropriations bills containing the spending cuts.

Here are the complete poll results:

BUDGET CHANGES

How do you view the seven-year period for balancing the budget?

A longer period should be allowed	6%
Seven years is about right	49
Balance should be achieved in less than seven years	45

Each resolution includes tax cuts or the promise of them once a final budget is signed by the president and after the Congressional Budget Office certifies that the budget would be balanced. How do you view tax cuts?

Should be part of any final budget legislation	40%
Should wait until spending cuts are made	26
Should wait until actual spending and revenues are equal	34

Are you willing to accept program cuts that might have a negative impact on your business or industry provided they help achieve a balanced budget and as long as the cuts are fairly distributed throughout the budget?

Yes	96%
No	4

Do you favor exempting areas of the budget from cuts? Or should all areas in the budget be fair game for spending restraint?

There should be exemptions	16%
All areas should be fair game	84

The Congressional Budget Office projects that balancing the budget would reduce interest payments on the national debt by $170 billion over seven years. How do you view this projection?

Too optimistic; can't save that much	22%
Reasonable	63
Too pessimistic; greater savings would result	15

How confident are you that a final budget reconciliation measure will be translated into the actual spending cuts necessary to reduce the deficit?

Very confident	4%
Fairly confident	32
Not confident at all	64

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Commentary

The stage is set for a major clash this fall over cutting federal spending.

By Robert T. Gray

President Clinton Should Not Block GOP Budget Plan

There is talk in Washington these days of an impending "train wreck."

That term is being applied to the prospect that a Republican-controlled Congress and a Democratic president will collide over fiscal policy, leaving the federal government without a budget for the fiscal year beginning Oct. 1.

The lawmakers still have a long way to go to complete their budget tasks. Crafting a federal budget consists of enacting 13 appropriations bills, plus legislation effecting tax and other policy changes needed to support the spending measures, and the umbrella legislation that ensures that all the parts are within the limits set by Congress in the resolution that started the process.

While that resolution was not subject to presidential action, all subsequent steps are, and President Clinton has repeatedly and aggressively declared his opposition to many aspects of the fiscal policies supported by the Republican congressional majorities.

The central element of those policies is the budget resolution that would put the federal government on course to a balanced budget by 2002.

Early skirmishes have indicated the tenor of the forthcoming clashes over the specifics of achieving that goal. When the House approved one package of spending-cut measures, Leon Panetta, the White House's chief of staff, told the GOP leadership: "If those bills reach the president's desk in their current form, he will veto them."

But Rep. Bob Livingston, R-La., chairman of the House Appropriations Committee, has told the president: "I recommend that you begin working with us on remaining bills and that you recognize that you will have to accept actions that must be taken to accomplish the decisions expressed by the American people last November."

Those statements have set the stage for the clash that is expected at the outset of the new fiscal year. While it would not be the first time that the government has reached that point without all appropriations measures signed into law, the circumstances this time raise the prospect of a more protracted impasse.

Traditionally, spending authority for government activity has been maintained by the legislative device known as a continuing resolution, which permits outlays while the formal appropriations process continues in overtime. The president and the Congress must agree to such a resolution.



But there is more at stake this time than the spending levels for the next fiscal year. Republicans want the president to accept their seven-year plan, which is designed not only to bring the federal budget into balance but also to implement a major change in the entire relationship between the government on one hand and states, cities, businesses, and individuals on the other. This plan would eliminate or limit many federal programs and agencies, transfer many long-standing federal activities to the states, and sharply reduce the role of government in American society.

The president apparently plans to use his veto power as aggressively as possible to block the achievement of many of those goals. Although they control Congress, Republicans do not have the two-thirds majorities needed to override vetoes.

Because of the many fundamental changes that Congress is addressing, it will not have completed its role in the budget process by Oct. 1, much less have gone through compromise discussions with the White House. Some stopgap arrangements will have to be made. These should not, however, be allowed to slow the momentum toward a balanced budget.

The president must realize the validity of House Appropriations Chairman Livingston's statement that most Americans want the federal budget to be balanced and that the president and his party must respond to those wishes.

While the president has proposed that the federal budget be balanced over the next nine years, as opposed to the seven years of the GOP plan, many fiscal experts say that plan is based on overly optimistic economic forecasts, not spending restraint.

Because he has continued to assail Republicans for the spending discipline they champion in pursuit of their balanced-budget initiative, doubts persist about his commitment to eliminating deficits.

The president cannot continue to have it both ways—paying lip service to a balanced budget while opposing the realistic steps needed to achieve one. Pursuing that approach will bring on fiscal chaos.

Because of the scope of the Republican goals, the first budget cycle under that party's leadership cannot be expected to conform to every deadline.

But the process will work much more smoothly if the White House would simply accept the public's mandate, delivered in unmistakable terms last November, for basic change, beginning with fiscal discipline. While there would still be some areas of disagreement, such a stance would make compromise much easier for both sides.

The president is increasingly and understandably concerned about improving his public standing as the 1996 election approaches. Opposing a fiscal policy supported by a strong majority of Americans is not the means to that end.

He is gearing up to fight a battle that was lost last November.

Robert T. Gray recently retired after 26 years with Nation's Business, *13 as editor.*

Editorial

Who Are Medicare's True Friends?

Under Congress' seven-year plan for achieving federal budget balance, spending for Medicare will total $1.6 trillion, an increase of more than 30 percent in the current spending rate.

The present annual budget for Medicare is $178 billion, and expenditures for 2002 are projected at $274 billion. Average annual spending per beneficiary will go from $4,800 to $6,700. Overall, Medicare will remain the fastest-growing federal program.

In the face of those numbers, the American Association of Retired Persons, a lobbying organization with 35 million members, asserts that the GOP plan means "massive cuts" in Medicare. "Reductions of this magnitude are too large and too fast," said an AARP official.

Some members of Congress echo the AARP line. Sen. Edward M. Kennedy, D-Mass., who has fought the Republicans' balanced-budget initiative, says that "these cuts are so deep that they will devastate not only our seniors but our health-care system as a whole."

Those and similar attacks on GOP proposals for dealing with Medicare all stem from a deliberate refusal to accept the realities of the financial status of this program 30 years after it was launched.

Critics are focusing on the fact that the GOP plan seeks to narrow the gap between annual cost increases of Medicare and private health insurance—10.4 and 4.4 percent, respectively.

By curbing the explosive growth of Medicare spending, the GOP plan would save some $270 billion over the next seven years.

That sum, not large against anticipated outlays of $1.6 trillion, represents the difference between the program's continuing solvency and collapse.

At current expenditure levels, the payroll taxes that finance the hospital-insurance component of Medicare, called Part A, will drop below costs next year, and reserves to finance deficits will run out six years after that. The cost of Part B, which is financed by enrollees' premiums and direct federal appropriations and which covers physicians' fees and other medical services beyond inpatient hospital care, has gone up more than 50 percent over the past five years alone. Even sharper increases are expected over the short term unless corrective measures are taken.

And those problems will get worse early in the next century as the beneficiary population swells with the arrival of the baby-boom generation in the ranks of the retired.

Medicare Hospital Insurance: An Imminent Fiscal Crisis

(Dollar Amounts In Billions)

Year	Income	Outlays	Surplus Or Deficit (-)	Reserves Available
1994	$109.6	$104.5	$ 5.0	$132.8
1995	117.4	113.9	3.5	136.3
1996	124.1	125.0	- 0.9	135.4
1997	129.3	135.6	- 6.3	129.2
1998	134.6	146.5	-11.9	117.3
1999	139.4	158.2	-18.8	98.4
2000	144.5	170.8	-26.3	72.1
2001	149.7	184.5	-34.8	37.4
2002	154.9	199.0	-44.1	0
2003	160.4	214.7	-54.3	0
2004	166.3	231.4	-65.1	0

That analysis was not drawn by Republicans seeking support for a balanced budget or any other legislative initiative; it was drawn by the boards of trustees for the two Medicare programs, boards that include three members of President Clinton's Cabinet and his appointee as Social Security commissioner.

Organizations like AARP and Democratic members of Congress complaining about Medicare "cuts" need to realize that the real problem is the inability of the U.S. economy and individual taxpayers to sustain the growth rate that Medicare has been allowed to achieve.

Ironically, those arguing for maintaining the rate at current or just slightly reduced levels are willing, for the sake of short-term political or organizational goals, to condemn Medicare to bankruptcy. Those favoring meaningful reforms believe such steps are necessary to preserve, protect, and strengthen the system to assure that it continues to fulfill the goals for which it was created.

The savings will not be achieved through arbitrary cutbacks in medical care for the elderly but through such steps as allowing beneficiaries to choose the health-care options that best suit their needs. Specifics of such changes will be developed in coming months.

Current beneficiaries and the taxpayers who are future beneficiaries should recognize that Medicare's true friends are those supporting responsible change, not those who would keep it on the road to insolvency. NB

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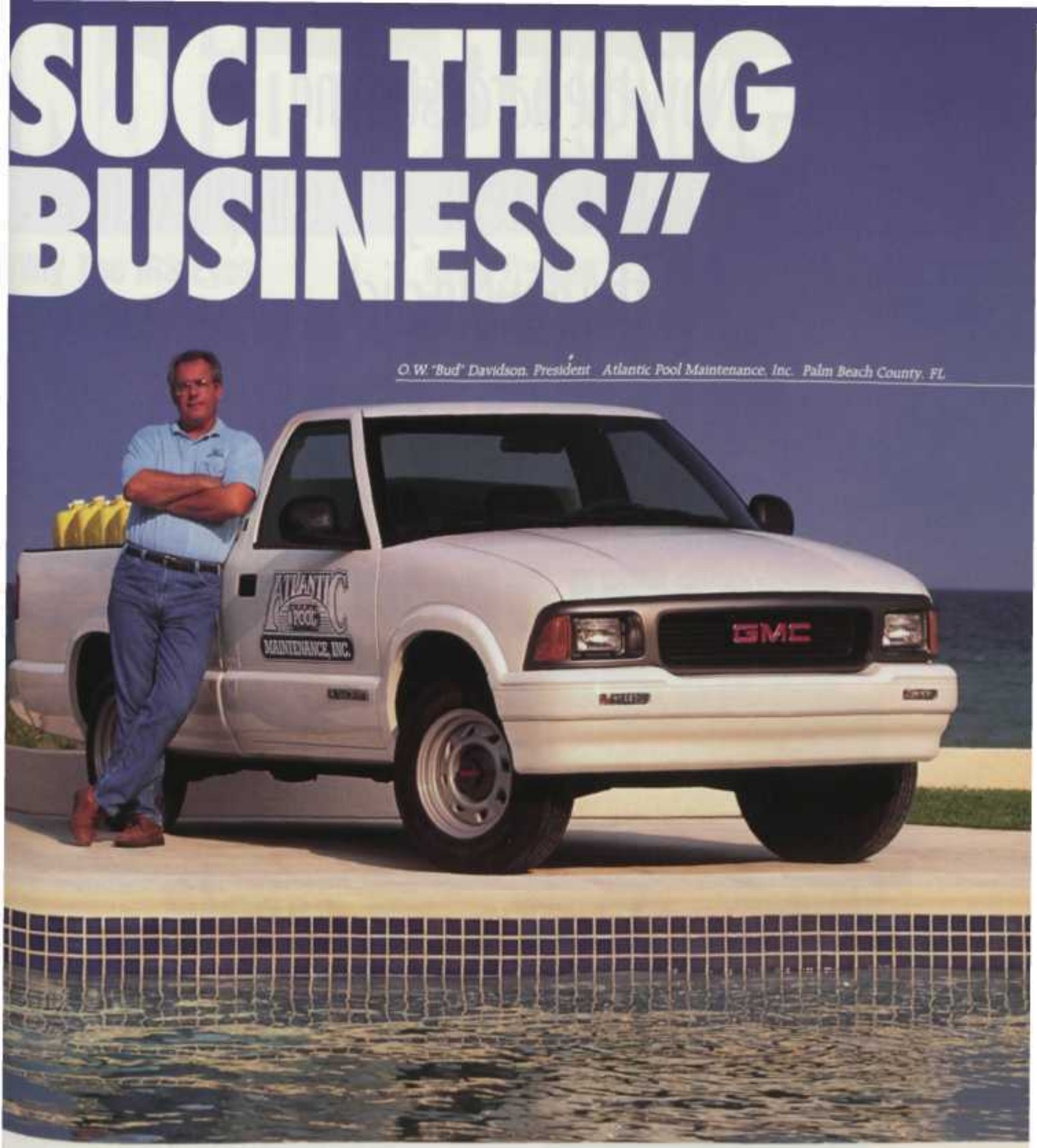


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